



# **MABS SERVICE PROVIDER PROGRAM**

## **CONCEPT PAPER**

Revised  
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**Date:** June 1, 2003

**Subject:** MABS Service Provider Status Report

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The following is intended to give you a brief update regarding the status of the MABS Service Provider activity by highlighting achievements to date, laying out plans for the near future, and discussing issues relevant to implementation.

Originally prepared in December of 2002, the MABS Service Provider Concept Paper has been revised to incorporate new information and corresponding adjustments. Documents referred to in this note are included in the revised Concept Paper as annexes.

#### Achievements

Since my arrival in the Philippines January 20, we have accomplished the following in support of the MABS Service Provider initiative:

#### **Evaluation of Accelerated MABS Approach**

An evaluation of the Accelerated MABS Approach was completed. The evaluation noted that the performance of MABS Participant Banks which received the Accelerated MABS Approach is comparable to that of MABS Participant Banks which received the “traditional” approach. We observed additional benefits associated with the promotion of Core Groups made up of senior staff members who in turn oversaw the implementation of the MABS Approach within their banks. Improvements were also made to the MABS training materials as a result of the consolidation of learning gained over the course of the project. Training and technical support actually improved as the result of a more standardized approach to training and technical support.

#### **Market Study**

A detailed Market Study of the potential supply and demand for MABS Approach Training and Technical Support services has been completed. The study serves as documented confirmation of earlier assumptions regarding the size of the market and pricing issues as well as providing

valuable information regarding interest in MABS microfinance best practices accreditation. Specifically:

- Of 170 rural banks surveyed, 104 expressed interest in receiving MABS Approach Training and Technical Support services. Extrapolating for 776 rural banks total, can estimate total market for MABS Approach of 473 rural banks.
- 35% of rural banks surveyed expressed both interest in and willingness to pay for MABS Approach services. Extrapolating for 776 number of rural banks, can estimate total market for MABS Approach of over 271 rural banks.
- Amounts rural banks surveyed willing to pay range from less than P100,000 to P300,000.
- Service providers indicated prices for MABS Approach services ranging from PhP100,000 to PhP300,000.
- 77% of rural banks surveyed indicated interest in receiving microfinance best practices accreditation.

### **Selection of Candidate MABS Service Providers**

I have prepared a separate note regarding the selection, evaluation and certification of candidate MSPs. To summarize briefly:

- Following a lengthy selection process, 5 organizations were invited to participate in the MSP Training Program. These organizations have provided members of their organizations to attend the MSP Training Program as trainees in order to be certified as capable of delivering MABS Approach Training and Technical Support services.
- The Post-Module Evaluation instrument has been developed and implemented as a means to maintaining appropriate levels of quality. The instrument has confirmed the capabilities of four MSPs, while resulting in the disqualification of a number of trainees and the withdrawal of one organization from the MSP Program.
- Following satisfactory completion of the MSP Training Program, MSPs will be certified as capable of delivering MABS Approach Training and Technical Support services. Members of the MSP's team are to be listed as Key Personnel authorized to provide MABS Approach Training and Technical Support services on behalf of the licensed MSP.
- Following the licensing of MSPs, continuing support should be provided by the MABS Program in order to ensure the quality of training provided by MSPs. RBAP/RBRDFI shall play an increasing role in the monitoring of MSPs up to and following the suspension of donor support.

### **MABS Service Provider Training Program & 6<sup>th</sup> Rollout Rural Bank Training**

The MSP Training Program was designed to provide candidate MABS Service Providers with the skills and content necessary to equip them to deliver MABS Approach Training and Technical Support services. As a means to providing opportunities to develop these skills, candidate MSPs are utilized in the delivery of MABS installations to 6<sup>th</sup> Rollout Rural Banks. In this way they have the opportunity to not only receive instruction in the MABS Approach, but also to witness and participate in the installation of the MABS Approach in Rural Banks.

As of June 1, 23 of 58 days of the MSP Training Program and 6<sup>th</sup> Rollout Rural Bank training have been completed including the Senior Management Orientation module, Market Research module including Technical Assistance visits, and MSP training for the Product Development

module. Bank training for the Product Development module is to be conducted during the first week of June. The 6<sup>th</sup> Rollout includes the Rural Bank of Mabalacat and the Rural Bank of Labrador.

### **MABS Bank Visit Winners**

As a means to persuading Rural Banks to participate in surveys conducted as part of the MABS Market Study, a raffle was organized during the Central Luzon and Southern Tagalog Rural Bank Confederation meetings held in February and March. Participants in the survey were given a chance to win a visit to a MABS Participant Bank and receive an orientation on the MABS Approach. On March 28, the fifteen selected Rural Banks visited the Rural Bank of Mabitac in Calamba and received an orientation on the MABS Approach and the MABS Service Provider initiative. The Rural Bank of Mabitac also shared their experience implementing the MABS Approach. Representatives from the five candidate MABS Service Providers were also present.

### **Looking Forward**

Viewing the accomplishments of the last three months as the laying of a foundation for the MABS Service Provider activity, we are able to continue to build upon these achievements by focusing on the following:

### **MABS Service Provider Training & 6<sup>th</sup> Rollout Bank Training**

The MSP Training Program is scheduled to be completed at the middle of August. Product Development module technical assistance visits will be completed during June, and the CIBI module will be completed during July. Final technical assistance visits for the CIBI module, as well as Operational Reviews will be conducted during August. A detailed schedule for the remaining modules and training activities can be found in the Revised MSP Concept Paper.

### **MABS Service Provider Training & 7<sup>th</sup> Rollout Bank Training (Visayas)**

In order to increase regional outreach, it is proposed that the MSP Training Program be repeated in the Visayas. In recognition of the smaller market for MABS Approach Training and Technical Support services in the Visayas and Mindanao, the scale of the training program will be much smaller than in Luzon entailing one or two organizations and between three and five trainees. It is foreseen that trainees may come from local representatives of current candidate MSPs or perhaps local partner organizations.

Previous plans to begin the MSP Training Program in the Visayas have been delayed due to resource limitations while the same was initiated in Luzon. In addition, it has been useful to consolidate experiences from the first round of MSP training. In order to begin the MSP Training Program, participant banks must be enrolled to attend MABS Approach training. Documentation has been distributed among 7 rural banks in both the Cebu and Iloilo regions which have previously expressed strong interest in obtaining MABS training. Once contracts have been signed and initial down-payments have been executed for at least three banks, trainings can be scheduled.

### **Training Materials**

Existing MABS training materials will be consolidated and reviewed in order to produce a comprehensive, well organized set of training and technical tools to be used by the MABS

Service Providers. This task will also include the packaging of materials for presentation for rural bank clients. These materials will be professionally prepared and printed, as well as being available electronically. These materials are to be available for use by the MABS Service Providers once they are licensed toward the middle of August.

### **Promotional Materials & Public Information Campaign**

In order to ensure the ultimate success of the MABS Service Provider activity, it is important that each MABS Service Provider is working and earning a return on their investment as soon as they have been licensed. While MABS Service Providers will not be able to provide MABS Approach Training and Technical Support services until they are officially licensed, it will be necessary to begin marketing these services well in advance of this date. With this in mind, the following support for MABS Service Providers is proposed:

- Training module on promoting MABS Approach Training and Technical Support services to Rural Banks
- Templates and initial copies of informational and promotional materials such as brochures
- Copies of existing MABS Promotional Videos
- Production of customized MABS Promotional Video
- Obtaining endorsements (BSP, et al.)
- Official signing ceremony with invitations sent to Rural Bank Federation Presidents and the BSP
- MABS Services Providers will also be invited (at their own expense) to attend Federation and Confederation Meetings and will be introduced by MABS to rural banks

### **Outstanding Issues**

Resolution of the following issues is crucial to the accomplishment of the MABS Service Provider activity:

### **MABS Best Practices Accreditation**

The MABS Best Practice Accreditation can be a valuable tool not just for promoting best practices among new entrants into the microfinance market, but to discourage banks from backsliding. It should be noted that there are still challenges faced with implementing the MABS Best Practices Accreditation including the make up of an independent accrediting body, the price that the banks would be willing to pay for this service. It is proposed that the MABS Program “pilot test” the accreditation “product” for an initial period to develop procedures and brand recognition (value), with the MABS Program providing confirmation audits and processing, and MANCOM acting as the accrediting authority. This will allow us to “work the bugs out” while considering the best way to develop a more sustainable mechanism.

### **Training & Licensing Agreement**

Formal documentation must be developed in order to define the relationship between the MSP and RBRDFI as regards the MSP Training Program, Certification Procedure, and ultimately the Licensing of the MSP by RBRDFI to provide MABS Approach Training and Technical Support services. The License allowing the MSP to provide such services will come into effect only upon the formal Certification that the MSP has demonstrated its capability to deliver MABS Approach

Training and Technical Support services. A draft Training & Licensing Agreement has been prepared and submitted to USAID for approval.

### **RBAP-MTSU**

Building the capacity of the RBAP-MTSU will be vital to ensuring the long-term viability of the MABS Service Provider licensing model. However, all but one of the RBAP-MTSU staff have resigned. As presented previously, a proposal regarding the role of RBAP/RBRDFI is included in the Revised MSP Concept Paper (RBAP-MTSU Structure). This proposal foresees a reorientation of the function of the RBAP-MTSU in line with our current focus on the use and support of MABS Service Providers to provide MABS Approach Training and Technical Support services. Further progress on this issue is contingent upon the selection and employment of a Program Manager as soon as possible in order to begin training this individual before the MABS Service Providers are licensed in August.

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## **INTRODUCTION**

The Microenterprise Access to Banking Services (MABS) Program is a USAID sponsored activity aimed at assisting rural banks in the Philippines to develop the capability to profitability provide both loan and deposit services to the microenterprise sector. This report discusses the MABS Service Provider (MSP) activity which is being implemented as a means to increase and accelerate the dissemination and installation of the MABS Approach microfinance technology by developing and enlisting the capacity of third party service providers.

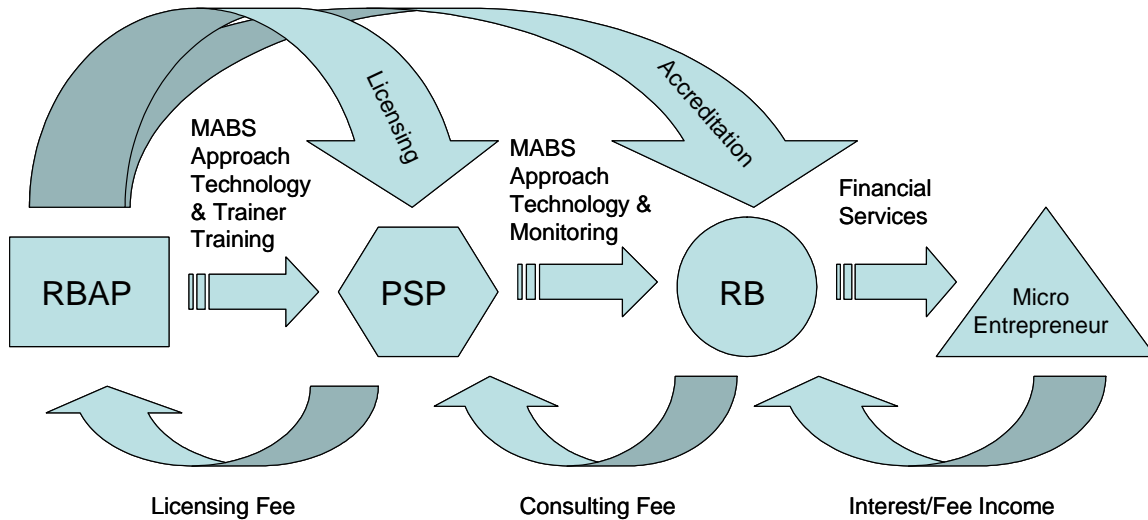
While the MABS program has been successful to date at installing its specialized microfinance technology in some 100 rural banking units since its inception in 1998, there remain a large number of rural banks which may be interested to also receive this technology. Indeed there are also several additional types of institutions that may be interested to receive MABS Approach Training and Technical Support services including, but not limited to, Thrift Banks and microfinance NGO's. However, the capacity of the MABS Program and its institutional partner, the Rural Bankers Association of the Philippines (RBAP), is limited in nature. At previous rates of installation, it would take from 50 to 100 years to reach all of the rural banks that are potentially interested in the MABS Approach. Thus the MSP activity aims to establish mechanisms necessary to foster the development of a market for consulting services by making the technology to deliver MABS Approach Training and Technical Support services available to MSPs for transfer to rural bank clients on a fee basis.

While it is clear that enlisting the support of MSPs to provide consulting services for installation of the MABS Approach provides an excellent opportunity for increasing and accelerating current efforts, an issue of concern is how to increase outreach while maintaining the high level of quality currently associated with the MABS Approach. It is recognized that while the methods employed by MABS to date ensure this high level of quality, they are both costly and time consuming. Accordingly, modifications in the design, application, and timing of the MABS Approach may be required to make it possible for MSPs to provide this service on a profitable basis for themselves, and at affordable prices to the rural banks client. However, it will be crucial that appropriate mechanisms be put into place that will ensure an optimal balance between the conflicting objectives of increased outreach and sustainability, and the maintenance of the high level of quality achieved by MABS to date. (See Annex A for a detailed discussion regarding issues related to the maintenance of quality standards for the MSP Program).

## **PROJECT DESIGN**

The proposal is for the MABS Program to license MSPs to install the MABS Approach in new rural banks units. Under this scheme, the MABS Program would select several candidate MSPs, train them in the MABS Approach, and then certify that they are fully capable of installing and servicing the MABS Approach. The MSPs would then market their services directly to interested rural banks. The MABS Technical Services Unit of RBAP (RBAP-MTSU) would essentially oversee the efforts of these organizations, and assure that appropriate quality standards are maintained. The following diagram illustrates the relationships involved, including the flow of technology transfer, accreditation, and revenue:





**Rural Bankers Association of the Philippines (RBAP):** As owner of the MABS Approach microfinance technology, RBAP/RBRDFI will license MSPs to provide MABS Approach Training and Technical Support services to rural banks. RBAP/RBRDFI will ensure the quality of the services provided by the MSP directly by observation and interviews with rural bank clients, and indirectly by monitoring the results achieved by the rural banks where installations have been made by the MSP. The current function of the RBAP-MABS Unit will be reoriented from its previous role of providing MABS Approach training directly to rural banks, to providing support to MSPs who will be providing MABS Approach Training and Technical Support services to rural banks. These support functions will include:

- Brand promotion
- MSP promotion and referral
- Facilitator for MABS Community
- Technology transfer to MSPs
- Owner of MABS Approach
- Licensing of and oversight of MSPs
- MABS Microfinance Best Practices Accreditation

The costs of performing these functions will be covered by licensing fees paid by the MSPs.<sup>1</sup> The nature of RBAP as an association places it in an ideal position to act as promoter and point of reference. Although the MSPs should be responsible for marketing their services to rural bank clients, it will be in the interests of RBAP to spearhead brand promotion and initial marketing efforts for MSPs in order to attain the critical mass required for MSPs to achieve profitability/sustainability in the short-term. (See Annex B for additional information regarding the role of the RBAP-MTSU).

<sup>1</sup> These costs will be significant during the initial implementation of the MSP activity as the MABS Approach is tailored to the use of MSPs and initial MSPs are selected and trained for licensing. However, over the longer-term, this workload should ease as MSPs begin to perform services more independently. Given the scale of the MSP activity, it is estimated that a small team of only one or two persons working in cooperation with RBAP's existing staff will be sufficient to fulfill the functions envisioned.

**MABS Service Provider (MSP):** MSPs are consulting firms capable of providing MABS Approach Training and Technical Support services to rural banks. MSPs will be selected and licensed by RBAP-MABS based on criteria including adequate capacity, high quality standards, and commitment to the promotion of Microfinance Best Practices (See Annex A). The MSPs will receive the MABS Approach technology and training from the MABS Program and will offer training and technical support services to rural bank clients on a fee basis. Assisting the rural bank client to obtain Best Practice Compliance Certification (see below) will become the ultimate goal of the MABS Approach consulting engagement.

Fees earned by the MSPs from rural bank clients should cover the costs of providing services as well as pay annual licensing fees to RBAP. While RBAP will provide a certain amount of promotion and referral services, the MSPs should be encouraged to generate consulting opportunities by means of their own marketing efforts in order to secure MABS Approach consulting engagements. Because of their proximity to rural bank clients and correspondingly better understanding their specific needs, the MSPs will be an important source of innovation and adaptation of the MABS Approach product. However, this adaptation should be closely monitored to ensure that the Microfinance Best Practice Standards of the MABS Approach brand are maintained.

**Rural Bank Client:** As a paying customer, the rural bank client is aptly motivated to ensure the success of MABS Approach installation. This will also result in increased demands upon the MSP to provide high quality MABS Approach Training and Technical Support services. As a means to achieving a positive return on investment in consulting services over the short to mid-term (18 months), the energies of both the MSP and rural bank client should focus on the objective of obtaining Best Practice Compliance Certification (see below).

Because the ability of the MABS Program to install the MABS Approach has been limited by existing capacity, initial MABS participant banks were selectively chosen following an intensive institutional assessment, which had the side affect of excluding many rural banks. With the implementation of the MSP activity, any rural bank willing to pay for MABS Approach Training and Technical Support services will be able to purchase such on the open market.

**MABS Approach Modular Training Course:** Because the cost of providing the original implementation two year version of the MABS Approach is prohibitively expensive, an “accelerated” version was developed during 2002 which has significantly reduced installation time (and cost). The modified course consists of six modules that are delivered one at a time over a period of six months. The modules are organized following the basic steps in the MABS Approach product development process including market research, product design, financial projections, MIS, microfinance best practices, cash flow lending methodology, zero tolerance toward delinquency, internal controls, and product testing. Each module is offered after an interval of about one month to allow time for the course participants to complete required follow-up activities within their respective banks. The course consists of 21 training days and 15 days of on-location monitoring and coaching. At certain phases of the product development process, follow-up visits are made to conduct coaching of the bank’s microfinance staff and assist in the analysis and work-out of product design and product delivery problems.

Following the recent conclusion of the pilot implementation of the Accelerated MABS Approach, an evaluation was completed. The results of this review are presented in Annex C. The evaluation noted that the performance of MABS Participant Banks which received the

Accelerated MABS Approach is comparable to that of MABS Participant Banks which received the “traditional” approach. Additional benefits were observed as regards the promotion of Core Groups made up of senior staff members who in turn oversaw the implementation of the MABS Approach within their banks. Improvements were also made to the MABS training materials as a result of the consolidation of learning gained over the course of the project. Training and technical support actually improved as the result of a more standardized approach to training and technical support.

Building upon the findings of this study, and recognizing the constraints associated with providing MABS Approach Training and Technical Support services at a price that will achieve cost coverage for MSPs, while still being affordable to rural banks (See Annex D for Discussion of Constraints), the MABS Approach was further refined. The current MABS Approach Modular Training Course now entails a 5 phase program (4 modules plus Operations Review) including 15 days of in classroom training and 15 days of technical assistance (See Annex E).

### **BEST PRACTICE COMPLIANCE CERTIFICATION**

The success of this scheme depends in large part on the perceived value of the MABS brand as compared to other microfinance technologies available on the market. This is true for both the MSPs and rural banks clients. The MABS Approach currently enjoys a high level of respect in the Philippines for its success in attaining significant outreach among rural banks that have developed very profitable microfinance units. In order to preserve this high quality standard in microfinance, both the MSPs and rural bank clients should be held to specified standards as articulated in training materials and licensing agreements for MSPs, and Best Practice Compliance Certification for participating rural banks. This Certification will serve as the glue that holds together RBAP, MSPs, and rural bank clients in their collective effort to champion Microfinance Best Practices in the Philippines.

Licensing of MSPs will require the satisfactory completion of the MSP Training Program (See Annex F) and corresponding evaluation procedure (See Annex A). Satisfaction of these requirements will result in the granting of a license allowing the MSP to provide MABS Approach Training and Technical Support services as an authorized MSP. The MSP must maintain a high level of quality standards in order to retain the license.

Rural banks may receive diplomas of completion upon the successful completion of the MABS Approach Modular Training Course. However, only after providing financial services to microenterprises for a period of six months or the upon reaching 100 active clients, and the satisfaction of established criteria, will a rural bank receive recognition in the form of Best Practice Compliance Certification (See Annex G). In this way, the ultimate goal of the training program becomes the obtaining of Best Practice Compliance Certification. This will serve to promote the longer term on-location monitoring and coaching that has proven to be so crucial during the initial operations of microfinance units. Direct contact between the consultant and bank management has been critical when resolving issues that arise during the operational phase of MABS installations. By providing the over-arching motivation of Best Practice Compliance Certification, MSPs can provide MABS Approach Training and Technical Support services at a cost and in a form conducive to client banks, while at the same time preserving the integrity of the MABS Approach.

Rural banks are be motivated to obtain MABS-MFBP Accreditation for the following reasons:

- To attract investors;
- Additional qualification when applying to the Bangko Sentral ng Pilipinas for permission to establish a branch;
- Enhance access to loan funds;
- To differentiate themselves from the competition (while many organizations now say that they are practicing microfinance, it is sometimes difficult to determine just exactly what that means -- MABS-MFBP Accreditation offers a well defined verification of the nature of the rural banks's activities);
- To focus the energies of staff and management in support of a concerted effort to install microfinance activities on a profitable basis;
- Improved self-image/prestige/credibility.

In order to support this rationale and improve the marketability of the MABS brand (to potential MSP's, rural banks clients, and microentrepreneurs), a targeted promotional and public relations effort should be made. This activity will involve a coordinated program of advertising, production of collateral materials, public relations events, press releases, and branding. The possibility of obtaining "stamps of approval" from respected institutions (BSP, PDIC, the Microfinance Council, etc.) should be explored in order to bolster the clout of the MABS brand.

## **SUSTAINABILITY**

The success of the MSP initiative requires sustainability (profitability) at each stage of technology transfer – RBAP to MSP, MSP to rural banks, and rural banks to microentrepreneur. If the costs involved with providing services at any stage cannot be covered, then the mechanism will fail. The following rough cost/benefit analysis attempts to illustrate the sustainability of the MSP Program while providing an idea of the scope involved.

While a free market and an appropriate balance between supply and demand is the most efficient way to determine prices, it is useful for us to understand the potential market for the MABS Approach product by discussing the costs involved for each party. Of particular interest is:

- **Supply:** The cost to the MSP to provide consulting services
- **Demand:** The price that rural banks are willing to pay for consulting services
- **Support:** The cost of supporting licensing of MSPs and quality control

Let's look first at the costs to the MSP associated with the provision of a MABS installation. Preliminary analysis of the costs associated with installation of the MABS streamlined modular course is presented below. Expenses for 21 training days and 15 days of on-location monitoring and coaching total just over PhP300,000. The incremental cost decreases significantly as the number of banks attending a single training course increases. For example, the cost for training each of three banks attending a single course would be halved to approximately PhP150,000. While these figures may not be precise, they do provide us with a range for consideration. Candidate MSPs have indicated prices from PhP100,000 to P600,000 to provide these services(averaging P300,000 when excluding outliers). The costs will also vary as the product is modified to suit the specific needs of the client banks.

<b>Classroom Training</b>	rate(p)	persons	days	total
Consultant (training)*	1,667	2	21	70,014
Consultant (traveling)	1,667	2	12	40,008
Transportation (per course)	500	2	6	6,000
Per Diem	1,050	2	33	69,300
Equipment	500		21	10,500
Sub-total				195,822

<b>On-site Monitoring/Coaching</b>				
Consultant (training)	1,667	1	15	25,005
Consultant (traveling)	1,667	1	5	8,335
Transportation	500	1	5	2,500
Per Diem	1,050	1	20	21,000
Sub-total				56,840

**Total 252,662**

<b>Analysis of Incremental Costs</b>				
Number of Participating Banks	Classroom Training Per Bank	On-site Consultancy Per Bank	Overhead Expenses (20%)	Total Per Bank
1	195,822	56,840	50,532	303,194
2	97,911	56,840	30,950	185,701
3	65,274	56,840	24,423	146,537
4	48,956	56,840	21,159	126,955
5	39,164	56,840	19,201	115,205

\* P1,667 is derived by dividing P20,000 by 12 consulting days in one month

Analysis of the profitability for a typical rural bank unit is presented in Annex H. This profit and loss analysis of a hypothetical microfinance bank unit shows that operations including the deployment of five loan officers and a loan portfolio growing to 500 loans over the first 18 months of lending activity shows that a rural banks unit can begin producing a profit before the end of the first year, and recover all the costs of training (even at the high end of the estimate above) before the end of the 18<sup>th</sup> month. This shows that an investment by a rural banks interested in installing the MABS Approach can show a positive return on investment despite the perceived high cost of consulting services. MABS participant banks are proven examples that the MABS Approach produces profitability. Analysis of the costs associated with microfinance units at MABS participating banks produce return on assets figures of approximately 20-25% of the outstanding portfolio. Therefore, it can be concluded that at rates even as high as P300,000, a MABS installation is a viable investment proposition in the short to mid term. Rural banks have paid amounts ranging from PhP105,000 to PhP189,000 for installations of the Accelerated MABS Approach. Respondents recently surveyed in the market study indicated willingness to pay for MABS Approach services up to PhP300,000, although most expressed willingness to pay amounts below PhP100,000.

We must make some illustrative assumptions in order to estimate the total size of the market for microfinance consulting services. Assume the following scenarios for microfinance consulting engagements over a five year period. The market study showed that of 776 Rural banks in the Philippines it is estimated that there are conservatively between 100 and 200 rural banks that have not yet received MABS Approach, but desire (and can afford) to do so. The range of prices for MABS Approach engagements is estimated to range from a low of P100,000 to a high of P200,000 as follows:

<b>Potential Market for MAB Approach Consulting Services: 5 years</b>			
	Number of Engagements	Price per engagement	Total revenue
Low	100	100,000	10,000,000
Medium	150	150,000	22,500,000
High	200	200,000	40,000,000

This provides a range of potential total revenue from MABS Approach consulting services over a five year period from 10 to 40 million pesos, and a midpoint of around 22.5 million pesos or 4.5 million pesos per year. Assuming the cost of one consultant at approximately P500,000 per year, annual total revenues of 4.5 million pesos per year would be enough to support approximately 9 full-time consultants each performing about 4 MABS installations a year. Licensing fees generating 200,000 pesos per year (4 MSPs paying PhP50,000 each) would represent approximately 10% of total revenues and would be enough to cover the costs of one half of a Program Manager dedicated to performing MSP support functions.

While these are not huge numbers, MABS installations averaging between 20 and 40 rural banks per year is significantly higher than the average 9 installations per year achieved over the first four years of the MABS program. The prospect of tripling the number of banks reached with the MABS Approach is certainly appealing, let alone the possibility of increase that number by six times. And at a current average portfolio of 400 loans per bank unit, and two banking units per rural bank, we are potentially looking at increased outreach from 80,000 to 160,000 active microenterprise borrowers. While this analysis is indeed unsophisticated, it at least provides an idea of the scope and feasibility of this important service. Understanding the scope of the MSP activity allows us to better design an appropriate implementation plan.

## **IMPLEMENTATION**

It is the goal of this activity to have accomplished the following by the end of 2003:

- Establish mechanisms to support MSP installation of the MABS Approach Training and Technical Support services;
- All installations of the MABS Approach will be performed by MSPs.

Substantial work has already been accomplished in support of the MSP Program. Some of these tasks include the following:

- Market study (completed)
- Design of MSP Training Program (See Annex F)
- Define MSP licensing criteria/procedures (See Annex A)
- Prepare licensing agreement (See Annex I)
- Define role of RBAP-MTSU (See Annex B)
- Package training materials (in process)
- Formulate and implement marketing strategy (in process)

Given the extended period of time required to train MSPs to install the MABS Approach, it was imperative that selection and training of candidate MSPs begin at the earliest possible opportunity. The MSP training began on March 12 and is scheduled to conclude towards the middle of August. Mechanisms will be put in place to grant the first round Best Practice Compliance Certification toward the end of 2003. An induction ceremony will act as the climax of the MABS brand public relations campaign. A Gantt chart illustrating the timing of the implementation plan is presented below. See Annex K for detailed complete training schedule.

**MSP Program Implementation Schedule**

	2003	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>A Preparation</b>													
1 Market Study													
2 Strategic Planning													
Prepare Licensing Agreement													
4 Define MSP Licensing Procedures													
3 Packaging Training Materials													
<b>B Training</b>													
1 Selection of Candidate MSPs													
2 MSP Training													
3 MABS Approach Bank Training													
4 Evaluation													
<b>C Implementation</b>													
3 Marketing													
4 MSP MABS Approach Installations													
<b>D MABS-MFBP Accreditation</b>													
1 Define Accreditation Procedures													
2 Establish Certification Program													
3 Public Relations Campaign													
4 Evaluations													
5 Accreditation Ceremony													

**INCORPORATION OF CURRENT ACTIVITIES**

Many of MABS' current activities should be integrated into the MSP Program. MABS training centers established at MABS participant banks can be used by MSPs as part of their training activities. MABSters participating rural bankers are also a valuable resource that should be utilized by MSPs to increase the value of their training and technical assistance.

The Academy for Banking in the Countryside (ABC) is a unit of RBAP that has been responsible for coordinating training programs in a wide variety of topics relevant to rural bankers for almost a decade. This capacity within RBAP should be considered when formulating a strategy for fulfilling the new functions required of RBAP to support the MSP Program.

**ADAPTATION & INNOVATION**

The MABS Approach is a well developed microfinance technology which has been tested over a number of years within a significant number of rural banks throughout the Philippines. It is promoted as a "right way" to do microfinance. Standardization is also recognized as an efficient way to minimize costs. As we look to increase outreach and relinquish absolute control over MABS Approach installations by transferring this technology to MSPs, some amount of adaptation and innovation may be necessary. The key driver of this issue is the market,

specifically (i) services demanded by the market/client, and (ii) the costs associated with this demand. In order for this activity to be successful, all parties must be self-sustaining (profitable), and in order to make a profit, one must give the customer what he wants at a price he is willing to pay. This does not necessarily mean that the quality of MABS Approach services will be diluted to a level that is substandard. Best Practice Compliance Certification will help to support a high level of quality and maintain the high standards of the MABS Approach.

Since the MSPs will be closer to the market, they will be in a better position to respond to the needs of the client. In efforts to bring down the costs of MABS Approach services, initial modifications may be made to further streamline the program, or break it up into modules to be applied if and when the client requires it. For example, another customization already requested involves the localization of the MABS Approach to urban environments. Smaller single unit banks may have different requirements than larger banks with extensive branch networks. Again, the MSPs will be a valuable source of innovation in this respect as they gain experience in their own markets.

We can foresee that the MABS Approach will serve as a jumping off point for MSPs who may be encouraged to develop additional services in support of microfinance or bank strengthening. Many MABS participant banks have requested additional training and consulting services to ensure the success of their microfinance activities. This may become increasingly important as MSPs move down market away from first tier rural banks. While the MABS Approach has so far been applied only at rural banks, it could also be adapted to use by Thrift Banks (or even Commercial Banks) as well as microfinance NGO's considering transformation into formally regulated microfinance banks.



## **ANNEX A**

### **MABS Service Provider (MSP) Selection, Evaluation, Certification**

This brief provides an overview of steps taken to ensure high quality standards for the MABS Service Provider (MSP) activity specifically as regards MSP Selection, Evaluation, and Certification.

The MSP activity has been initiated as a means to increase and accelerate the dissemination of the MABS Approach microfinance technology among rural banks in the Philippines, while at the same time ensuring the sustainability of the MABS Program following the suspension of donor support currently scheduled for September, 2004.

However, in order to encourage the development of fee-based training capacity by working with third party service providers, the MABS Program is forced to surrender a certain level of control over the MABS Approach installation process. Additional factors make it difficult to ensure the same level of quality associated with the MABS program to date. These include:

- Subsidy: Since 1998 the MABS Program has installed the MABS Approach in 37 banks supported by significant funding from the United States Agency for International Development. These subsidies have included direct long term technical assistance and equipment grants, as well as indirect support (overhead) in the form of the MABS team and its maintenance.
- Bank selection: Initially MABS participant banks were selected using an exhaustive Institutional Assessment tool in order to “hand-pick” only those banks that had the greatest possibility of success. MSPs will make the MABS Approach available to any rural bank willing to pay for such services.
- Price: As a market driven endeavor, the MSP activity is subject to pricing constraints in order to ensure cost coverage, while providing service at a price which is affordable to rural banks.
- Focus: The MABS Program has been singularly dedicated to the task of working with rural banks to build capacity for delivering financial services to microentrepreneurs.
- Oversight: The MABS Program has benefited from the commitment and expertise of the members of its Steering Committee and Management Committee.

While it may be difficult to guarantee the same levels of quality resulting from MABS Program strategies implemented to date, it is possible to appreciably influence quality standards as follows:

- By providing appropriate training,
- By selecting suitable Service Providers through rigorous evaluation,
- By certifying/licensing only quality Service Providers, and
- By installing post-licensing monitoring systems.

Details regarding these measures are presented in this note. To summarize briefly:

- Following a lengthy selection process, 5 organizations have been invited to participate in the MSP Training Program. These organizations have provided members of their organizations to attend the MSP Training Program as trainees in order to be certified as capable of delivering MABS Approach Training and Technical Support services.

- The Post-Module Evaluation instrument has been developed and implemented as a means to maintaining appropriate levels of quality. The instrument has confirmed the capabilities of four MSPs, while resulting in the disqualification of a number of trainees and the withdrawal of one organization from the MSP Program.
- Following satisfactory completion of the MSP Training Program, MSPs will be certified as capable of delivering MABS Approach Training and Technical Support services. Members of the MSPs team are to be listed as Key Personnel authorized to provide MABS Approach Training and Technical Support services on behalf of the licensed MSP.
- Following the licensing of MSPs, continuing support should be provided by the MABS Program in order to ensure the quality of training provided by MSPs. RBAP/RBRDFI shall play an increasing role in the monitoring of MSPs up to and following the suspension of donor support.

## **Selection**

During the first quarter of 2002, an initial feasibility study was conducted for the MSP activity. As a part of this study organizations including private sector consulting firms, foundations, universities, rural banks, and a rural bank confederation, were preliminarily identified as potential service providers (based on expertise in the financial or microfinance sector as well as capabilities in training and consultancy). In response to initial inquiries, nineteen (19) organizations were met with to present an overview of the MABS Program, as well as the MSP concept. Based on these interviews, nine (9) organizations were pre-qualified as possessing the capabilities and having expressed initial interest to participate in the MSP Program. A complete list of the organizations which were met with is attached. The short-list as follows:

- ARMDEV
- AIM
- APPEND
- CEFE Network
- Institute for Small-Scale Industries
- Madecor Group
- PBSP
- Punla Sa Tao
- Price Waterhouse Coopers

In January and February of 2003 these short-listed “pre-qualified” organizations were revisited with the addition of 3 organizations (Ancilla Enterprise Development Consulting, Inc., Asia Development Consultants, Inc., and SEA Consultants, Inc.). These meetings addressed the following topics:

- Provided an update of the MABS Service Provider licensing program
- Presented MABS Approach Modular Training Course
- Assessed organizational training capabilities
- Confirmed continued interest in the licensing program

Using the following criteria, the list was further reduced to 5 organizations.

- Reputation

- Demonstrated training capability
- Demonstrated consulting capability
- Experience with microfinance
- Experience with banking industry (preferably rural banks)
- Presence of network/linkage/capabilities in various parts of the Philippines;
- Willingness to participate in the MSP Program
- Willingness to dedicate staff for the 6-month MSP Training Program

The short-list of organizations proposed to attend the MSP Training Program included:

- Ancilla Enterprise Development Consulting, Inc.
- Associated Resources for Management and Development, Inc.
- Madecor Group, Inc.
- Punla Sa Tao Foundation, Inc.
- SEA Consultants, Inc.

Each of the short-listed MSPs was asked to submit a formal Expression of Interest (EOI) to participate in the MSP Training Program. Their EOI included the following:

- Expression of Interest to participate in the MSP Training Program
- Company profile
- Curriculum Vitae of candidate trainees
- Proposed plan of implementation for MSP product (mini-business plan)
- Proposed pricing to provide the MABS Approach Modular Training Course product

On March 11, the five short-listed candidate MSPs were invited to a round-table discussion with the following agenda:

- Presentation of the MABS Approach Modular Training Course
- Presentation of the MSP Training Program
- Introduction of the MABS Team
- Discussion of the MSP Training Schedule and training requirements
- Confirmation of participation in the MSP Training Program

These organizations were then invited to attend the training program with an understanding that final licensing is based upon satisfactory completion of the MSP Training Program and satisfactory demonstration of capability to deliver MABS Approach Training and Technical Support Services.

Candidate MSPs are predominantly private consulting companies except for Punla Sa Tao Foundation which is a private non-stock organization. Most are based in Manila, excepting Madecor Group which is headquartered in Los Banos, Laguna. All candidate MSPs have been in business for 7 years or more, the oldest having been in business for 30 years (Madecor). All candidate MSPs maintain a full time staff of not less than 6 personnel. Ancilla maintains the largest number of regular staff (50), followed by Madecor (35), and by SEA (16). All candidate MSPs provide consulting and training services, both locally and internationally. All of the candidate MSPs have experience in the field of microfinance, excepting Ancilla which, however, does have experience in the banking industry (including rural banks). Three organizations (Ancilla, Madecor, and Punla) possess training center facilities. All possess training equipment

(e.g. overhead/multi-media projectors, TV/Video Players). Each of the candidate MSPs maintain both local and international affiliations and networks that provide support capabilities for their operations.

#### Summary of MSP Organizational Capabilities

	<b>Ancilla</b>	<b>ARMDEV</b>	<b>Madecor</b>	<b>Punla</b>	<b>SEA</b>
Type of organization	Private corp.	Private corp.	Private corp.	Private, non-stock	Private corp.
Location	Manila	Manila	Los Banos, Laguna	Manila	Manila
Years in Operation	7	23	30	7	17
No. Regular Staff	50	6	35	14	16
Products/Services Provided	Training Research & Studies	Training & Conference Mgt Microenterprise Development Project Dev and Mgt Community Based Mgt Community Organization Participatory Research & Evaluation Advocacy, IEC	Training and Management Consulting	Training and Consultancy Program Management Social investments to microfinance institutions, donors and investors	Organization Development Public Institution Banking & Financial Services Reorganization & Civil Law Information Technology
Clients	Business organizations, gov't. institutions, academic & professional organizations, small & medium business corps., NGOs	NGOs, Pos, LGUs, Rural banks, Coops, NGAs, International Donor/Funding Agencies (USAID, ADB, JICA, etc.)	International Donor Agencies, govt & private institutions in the Philippines & some parts of Asia e.g. Sri Lanka, Pakistan, Bangladesh, Nepal, Thailand, Malaysia, Indonesia & Philippines	PSs, NGOs, NGA, banks and financial institutions	Donor/Funding Agencies (ADB, CIDA, ILO, JICA, UNDP, USAID), National government agencies (DAR, DA, DBM, DOLE, DENR, DTI, DILG, DOT, PCIC, TESDA)
Training Facilities	Training center and equipment	Training Equipment	Training Center & Equipment	Training Center & Equipment	Training Equipment
Affiliations & Network	Asia Partnership, Inc. International Bureau of Economy & Labor Eagle's Flight International (Canada) Pivotal Technologies, Inc. Systematic Multiple Level Observation of Groups	Extensive links with leading NGOs, PVOs, local business associations, civic clubs (chamber of commerce, people's economic councils, etc.) and universities throughout the Philippines.	Partnership with leading universities, technical institutions, NGOs, private corporations and research agencies in Asia, Australia, America and Europe	Consultative Group to Assist the Poorest (CGAP) Association of Foundation (AF)	Financial Executive Institute of the Philippines, Institute of Management Consultants of the Philippines, Confederation of Filipino Consulting Organizations Management Associations of the Philippines

Each MSP is expected to provide qualified participants to attend the MSP Training Program. Initial selection criteria for MSP trainees indicated as follows:

- Good familiarity with microfinance
- Experience with banking and/or finance
- Experience with training and/or consulting
- Experience with rural banks preferred

Also important are good presentation and writing skills. While it is difficult to expect that each of the trainees fulfill all of the requirements listed, it is important that they are able to demonstrate expertise in at least one or two of the areas of qualification. The MSP training program can assist in improving areas where lacking experience, but does not provide enough time to prepare inexperienced trainees.

Upon completion of each module, the trainees are evaluated and certified as qualified to provide MABS Training and Technical Support services (see below). While trainees may choose to specialize in one or another module, an MSP organization will not be granted a license unless it is able to demonstrate its ability to provide the complete MABS Training and Technical Support services package. This requires that at least one individual in the organization has completed the whole MSP Training Program and is thus able to act as coordinator and “champion” of the MABS product within the MSP.

The MSP Training Program entails approximately 60 days of training over a period of approximately 6 months. The training includes in classroom MSP trainer training, participation in actual MABS Approach rural bank training, as well as participation in the delivery of technical assistance to rural banks. In order to facilitate satisfactory training over such a limited number of training days, it is necessary for the MSPs to propose qualified trainees.

Participants in the MSP Training Program are listed as follows. A summary of their qualifications is attached.

<b>Ancilla</b>	<b>ARMDEV</b>	<b>Madecor</b>	<b>Punla</b>	<b>SEA</b>
Augusto Pascual	Elda Montera	Celso Lantican	Alan Orogo	Aristedes Lineses
Irmina Valdez-Iya	Anna Tenorio	Arlene Sanchez	Christopher Lomboy	
Richie Albert	Arli John Nim		Irmina Dispo	
	Gerardo C. Sison		Elva Pedronio	

The trainees are a collection of individuals with varied experiences in microfinance, banking and training. Their experience ranges from between four and 28 years occupying various levels of supervisory and management positions. A number of proposed trainees have been disqualified because they did not meet specified criteria.

It is important to note that the selection of organizations and individual trainees for participation in the MSP Training Program does not guarantee final selection to be licensed as MABS Service Providers. It is possible that organizations and trainees may ultimately be found to be unsuitable for participation in the MSP Program. With this in mind, the following evaluation procedure is proposed.

## **Evaluation**

Since the beginning of the MABS Program, the MABS Team has provided training directly to rural banks, to MABS trainers internally, and also to members of the RBAP/MTSU. However, this is the first time that trainer training has been provided to third party service providers. The primary challenge is that while MABS trainers and members of the RBAP/MTSU were employed on a full time basis and trained over a period of up to a full year before they were deemed capable of delivering MABS training on their own, MSP trainees must be equipped to deliver quality MABS Approach Training over a period of just 60 days. Despite what is by comparison a condensed training, the MSP Training Program requires a significant investment on the part of the candidate MSPs which are expected to shoulder the expense of providing trainees to attend.

The objective of the MSP Training Program is to ensure that MSP trainees are fully qualified and capable of providing high quality MABS Approach Training and Technical Support services. Rather than focus exclusively on technology transfer, the MSP Training Program seeks to provide trainees with “real life” opportunities to gain experience in the process of delivering MABS Approach Training and Technical Support services. Therefore the MSP Training Program is

conducted alongside the actual delivery of a MABS Approach bank training consisting of five steps which are delivered over a six-month period (including Senior Management Orientation, Market Research, Product Development, CIBI and Cash Flow Analysis, and Operations Review). For each module trainees are provided with not only classroom instruction, but also the opportunity to witness actual bank trainings, as well as deliver training presentations and technical assistance directly to rural banks (tell, show, do). This process is performed under the close supervision of the MABS technical staff with a view to providing mutually reinforcing opportunities for learning, while ensuring the quality of training delivered to the rural banks.

Now one third of the way through the training program, and having completed the first two modules (Senior Management Training & Market Research, 6 and 12 days respectively), it is possible to make a preliminary evaluation of the training approach and the performance of the trainees. It is difficult to expect that after just 18 days of training, the MSP trainees are already experts in the MABS Approach. However it can be said that the transfer of technology in the form of the principles embodied in the MABS Approach are successfully being absorbed, and that the experiential approach of the MABS Training Program, while still limited, is nevertheless much better than merely providing trainees with written materials and in-classroom instruction. It is expected that the trainees will complete the six month course with both knowledge and valuable first hand experiences which will aid in the delivery of MABS Approach training in the future.

It is also observed that some trainees are performing better than others, while a number may not be qualified to become MABS Approach Trainers. In order to provide timely feedback to MSP management, and ensure the best use of valuable training resources, a formal, objective, and structured evaluation process has been introduced as a means of determining acceptable performance levels. Evaluation results can then be used to discuss relevant issues with MSP management with a view to strengthening training teams. Involving MSP management in the process provides the opportunity to observe the progress of trainees and alters the sometimes passive nature of training by adding pressure on the trainees to perform.

The MSP Post-Module Evaluation instrument assesses the capability of an MSP to install or deliver each module of the MABS Approach. The instrument consists of two components, Training Delivery and Technical Assistance. Each MSP must obtain a "Pass" rating for both components for all of the modules of the MABS Approach in order to be recommended to the MABS MANCOM for final certification and licensing. The Training Delivery component of the MSP Post-Module Evaluation is demonstrated on the basis of presentations made by the MSP, and focuses on the MSP's knowledge and understanding of the topics, as well as presentation skills. The MSP's capability to deliver the Technical Assistance component is evaluated by combining field observations made by MABS technical staff and a review by the MSP Evaluation Panel of the quality of the TA report produced by the MSP, with a focus on technical findings and recommendations, as well as writing skills. Using a scale from 1 to 5, the determination of a final weighted score can be summarized as follows:

Criteria	Score					Specific Weights	Component Weigh
	Low		High				
	1	2	3	4	5		

<i>Training Delivery</i>		
1. Knowledge/understanding of the topics	80%	
2. Presentation skills	20%	
Sub-Total	100%	50%
<i>Technical Assistance</i>		
1. Technical findings & recommendations	80%	
2. Writing Skills	20%	
Sub-Total	100%	50%
Total		100%

A “Pass” rating is achieved by obtaining a weighted score of at least 3.5. If an MSP receives a rating of below 3.5, a “Conditional” rating is made. The MSP is given a second chance to re-present the materials in order to demonstrate its capability to provide MABS Approach Training and Technical Support services. This can be done by improving the performance of the original presenters, or by reconstituting the training team to remove weak performers. (For future trainings, the MSP may also consider strengthening their team by providing additional qualified trainees). Once again, for second round evaluations the MSP must obtain a weighted score of at least 3.5 to receive a “Pass” rating, otherwise the MSP will receive a “No-Pass” rating and be disqualified from being certified and licensed as an MSP. Ratings are established by the MSP Evaluation Panel which is composed of members of the MABS Technical Team, and subject to availability, representatives of MABS Management Committee members (RBAP/RBRDFI, MEDCO and USAID).

Training Delivery presentations are accomplished in the following manner. Each MSP team is evaluated separately. For each topic in the module, 3-5 slides are selected for presentation by MSP Team members. Following the presentation, the MSP Evaluation Panel poses questions relevant to the topic being discussed for the presenter to answer. Once the question-and-answer session is completed, the members of the MSP Evaluation Panel individually rate the performance of the MSP for that particular topic. Thereafter, the discussion moves on to the next topic until all the topics in the module have been covered. When all of the presentations are completed, the MSP team departs while the members of the MSP Evaluation Panel meet to discuss their evaluation of MSP presentations, and later, to review the TA report submitted by the MSP. The results of the evaluations are reported in writing to the MSP within a week after the date of the evaluation.

The first Post-Module Evaluations were accomplished during the second week of May (12-16), with second round evaluations to take place on Thursday, June 5. The evaluation covered the first two modules of the MABS Approach Modular Training Course including Senior Management Orientation and Market Research, condensing 5 days of training presentations into a three hour morning or afternoon session. Topics included the following:

Senior Management Orientation

- MABS Approach
- Microfinance Best Practices
- Profitability of Microfinance Operations
- MABS Modular Training & Technical Assistance Program

Market Research

- What Is Market Research?
- Determining the Size of the Microfinance Market
- Area Mapping
- Market Survey
- Data Processing & Analysis
- Focus Group Discussion

Post-Module Evaluation schedules, trainees/presenters, and management participants listed as follows:

<b>Ancilla</b>	<b>ARMDEV</b>	<b>Madecor</b>	<b>Punla</b>	<b>SEA</b>
May 15 Pm	May 16 PM	May 12 PM	May 16 AM	May 12 AM
Augusto Pascual	Elda Montero	Celso Lantican	Alan Orogo	Aristedes Lineses
Irmina Valdez-Iya	Anna Tenorio	Arlene Sanchez	Elva Pedronio	Antonio Darilay
Richie Albert	Arli John Nim	Genesis Escobin	Irmina Dispo	Moises San Buenaventura
Lourdes Ortiz-Luis President		Dr. Elpidio Rosario President	Agnes Rana Associate Director	
		Atty. Victor A. Yu	Mary Jane Ilejay Training Officer	

The MSP Evaluation Panel was composed of the following:

- Ricky Morales (RBAP)
- Mark Guilermo (MEDCO)
- Cecile Dicdiquin (MABS)
- Aaron Pili (MABS)
- Michael Alcorn (MABS)

Results of the first round evaluation are summarized as follows. Additional details are presented in the attached table:

	<b>Ancilla</b>	<b>ARMDEV</b>	<b>Madecor</b>	<b>Punla</b>	<b>SEA</b>
<b>Senior Management Orientation</b>					
Score	2.69	4.14	3.02	3.68	3.44
Rating	Conditional	Pass	Conditional	Pass	Conditional
<b>Market Research</b>					
Score	3.93	4.15	3.11	3.82	2.98
Rating	Pass	Pass	Conditional	Pass	Conditional

While the results were mixed, they were not unexpected. Documented evaluation results were used to discuss performance issues with MSP management. Specifically:

- **ARMDEV and Punla:** Received “Pass” ratings.
- **Ancilla:** Received “Conditional” rating for SMO module, and “Pass” rating for Market Research. Fortunately, Ancilla has hired a former member of the RBAP/MTSU, Irmina Valdez-Iya, in order to strengthen its team. Ancilla requested that Ms. Valdez-Iya represent the SMO module during 2nd round evaluations. She is expected to receive a “Pass” rating. The Evaluation Panel recognized that while Mr. Pascual’s presentation skills need improvement, he was able to make a positive contribution during the



Technical Assistance phase. Considering also 20 years of banking experience, the panel suggested that he can therefore act as a valuable member of the team (TA, coordination, interaction with bank management, etc.).

- **SEA:** Received “Conditional” rating for both SMO and Market Research modules. The evaluation confirmed expectations of stellar performance by Mr. Lineses weighed down by poor performance on the part of Mr. Danilay and Mr. San Buenaventura. SEA management was informed and accepted that Mr. Danilay and Mr. San Buenaventura are not qualified to become MABS trainers and will no longer attend trainings. Mr. Lineses will re-present the modules during 2nd round evaluations. He is expected to receive a “Pass” rating. SEA is encouraged to strengthen their team with the addition of another (qualified) trainee. Alternatively, the Evaluation Panel suggests that Mr. Lineses is capable of delivering trainings on his own (with logistical support).
- **Madecor:** Received “Conditional” rating for both SMO and Market Research modules. Correspondingly, Madecor has chosen to discontinue participation in the MSP Program.

Second round evaluations are scheduled to take place on June 5. Ms. Anna Tenorio is expected to re-present the Senior Management Orientation module on behalf of Ancilla, and Mr. Aristedes Lineses is expected to re-present certain topics of both the Senior Management Orientation and Market Research modules on behalf of SEA.

The MSP Evaluation Panel is anticipated to include the following members:

- Eufemia Calderon/MEDCO
- Tersest Espenilla/USAID
- Ricky Morales/RBAP
- John Owens/MABS
- Michael Alcorn/MABS

Results for the second round evaluation will be presented at the meeting of the Steering Committee (or as soon as available).

It is worth noting that despite the disqualification of a number of trainees, 12 trainees from 4 organizations remain as participants in the MSP Training Program, which was the original target for this activity. The removal of weak performers should also improve the quality of training for the remaining participants. It is also good that former members of the RBAP/MTSU have found homes among MSPs. And most importantly, an evaluation procedure is in place to ensure adequate quality standards for MSPs.

### **Certification**

A Training and Licensing Agreement is to be entered into by the candidate MSP and RBRDFI (as “owner” of the MABS Program). This Agreement outlines the relationship between the parties as regards the MSP Training Program, Certification Procedure, and ultimately the Licensing of the MSP by RBRDFI to provide MABS Approach Training and Technical Support services. The License allowing the MSP to provide such services comes into effect only upon the formal Certification that the MSP has demonstrated its capability to deliver MABS Approach Training and Technical Support services, i.e. received a “Pass” rating during Post-Module Evaluations for each component of every module of the MSP Training Program.

As stipulated in the Agreement, members of the respective MSP Training Teams are to be indicated as Key Personnel authorized to provide MABS Approach Training and Technical Support services on behalf of that licensed MSP. The Post-Module Evaluation procedure can also be used to confirm the capabilities of additional Key Personnel proposed by an MSP. Upon receiving a “Pass” rating such individual can be added to the list of Key Personnel. If an MSP were to lose its Key Personnel, and therefore its (demonstrated) capacity to provide MABS Approach Training and Technical Support services, it would accordingly lose its license.

While the MSP Training Program is proving to be effective in transferring technology to the MSPs, as well as providing experiential learning opportunities, it is nevertheless limited by the number of days involved. In order to ensure the quality of MABS installations by MSPs going forward, the MABS Program should continue to provide close support and guidance during the first bank installations.

RBAP/RBRDFI shall play an increasing role in the monitoring of MSPs up to and following the suspension of donor support. Monitoring and quality control can be performed through the following:

- Reporting requirements
- Spot checks
- Attending courses
- Monitoring progress of banks
- Soliciting feedback from banks

Ultimately, the market will reward those organizations which provide high quality and affordable services, and punish those that do not.

**List of Potential Service Providers**  
**[excerpt from MABS Approach Service Provider Feasibility Study,**  
**prepared by Horace Crowe, March 2002]**

<b>Organization</b>	<b>Name</b>	<b>Type of Business</b>	<b>Current MF Training</b>	<b>Preliminary Expression of Interest Confirmed</b>	<b>Issues</b>	<b>Status</b>
ARMDEV	Elda Montera	Management and Technical Consulting	None	Yes	None	Pre-qualified
AIM	Ron Chua	Education Institution	Yes	Yes	Fee and master franchise availability	Pre-qualified
APPEND	Noel Alcaide	Foundation	Yes	Yes	None	Pre-qualified
APRACA-CENTRAB	Erlinda Lagmay	Foundation	Yes		N/A	None
CEFE Network	Nanette Villanueva	Foundation	None	Yes	None	Pre-qualified
Center for Research and Communications	Emilio Antonio, Jr.	Foundation	None	No; no response to inquiries	N/A	None
IDP Consult	Evelyn Orda	Management and Technical Consulting	None	No; still awaiting decision	MF fit with current practice/fee	To be determined
Institute for Small-Scale Industries	Ernesto Pineda	Foundation	None	Yes	None	Pre-qualified
La Liga Policy Institute	Horacio Morales	Foundation	None	No; no response to inquiries	N/A	None
Madecor Group	Elpidio Rosario	Management and Technical Consulting	None	Yes	Fee	Pre-qualified
Microfinance Council/Coalition of the Philippines	Ed Garcia	Foundation	Yes	No; incompatible with mandate	N/A	None
PBSP	Patricia Corpus-Calilong	Foundation	None	Yes	Fee	Pre-qualified
PIDS	Mario Lamberte	Foundation	None	No; incompatible with mandate	N/A	None
Price Waterhouse Coopers	Cosette Canilao	Financial and Management Consulting	None	Yes	Fee	Pre-qualified
PRIMEX	Elvira Ablaxa	Management and Technical Consulting	None	No; no response to inquiries	N/A	None
Punla sa Tao		Foundation	Yes; CGAP partner	Yes	None	Pre-qualified
Sea Consultants	Vincent Rodriguez	Management and Technical Consulting	None	No; no response to inquiries	N/A	None
SGV & Co.	Anthony Chua	Financial and Management Consulting	None	No; still awaiting decision	Fee quite below current rates	To be determined
Tulay Sa Pag-unlad, Inc. (TSPI)	Ruben de Lara	Foundation	Unknown	No; no response to inquiries	N/A	None

## MSP Training

### Trainee Qualifications

MSP	Name	Microfinance	Banking	Training	Consultancy	Management	Education
SEA	Aristedes Lineses	None	None	Accredited Trainer, Confederation of Filipino Consulting Organizations; Senior Instructor; Training Expert/ ADB consultant on insurance industry	To the: Bureau of Local Government Finance; ADB; Central Cordillera Agricultural Program; Mainline Insurance Brokerage; Philippine Crop Insurance Corporation; Insurance Unlimited (Brokers) Inc.	28 years of management experience as President, Vice President; General Manager, Project Director, Chief Underwriter, Underwriting and Claims Manager, Supervisor	MBA, Philippine Christian University; BSBA, PSBA
Punla	Alan Orogo	9 years at TSPI as Account Officer and Branch Manager	None	1 year as trainer on microfinance at Punla sa Tao Foundation	At Punla sa Tao Foundation, provides TA to CASCADE microfinance officers in setting up and maintenance of Savings and Loan Groups and Rural Finance Centers	Branch Manager at TSPI for 5 1/2 years	BA Economics, University of the Assumption, Pampanga
	Christopher Lomboy	6 years at Punla sa Tao Foundation as trainer, consultant, and manager	None	CGAP-accredited resource person for System for Microfinance Institutions Course and Operational Risk Management Course; Teaches microfinance courses (under Punla) on savings mobilization, market research and fundamentals of microfinance.	Development Management Officer under the Office of the Philippine President managing a post-conflict program for rebel returnees; Manager of Punla's rural finance capacity building contract with CASCADE.	Consultant to different microfinance projects with contract at Punla such as Sambayanihan Foundation, an NGO, Visayas Cooperative Development Center (VICTO), Cooperative Support Program (CSP), and CASCADE.	BS Forestry, UPLB; Masters in Development Management, AIM
	Irmira Dispo	11 years at TSPI as AO, Unit Head, Assistant Manager and Branch Manager	None	In-house training for TSPI; Group formation seminars for group loans	Writing of project proposals on integrated farming for rural areas to Valued Ventures, Inc.	5 years as Unit Head, Branch Manager	BS Agricultural Business, UPLB
	Elva Pedronio	1 year - Punla sa Tao Foundation; Faculty Member for Microfinance Accounting for Grassroots Banking (Punla)	None	Resource person for training conducted by Punla sa Tao Foundation	None	1 year - Senior Program Officer; 5 years - Administrative and Finance Officer	BS Accounting, Ateneo de Davao
Madedcor	Celso Lantican	Executive Director of Kaalalay Foundation; Supervised microcredit operations of Rural Bank of San Antonio; Organized microcredit program of STARBANK in San Pablo City	15 years at PNB; 1 year as consultant to Rural Bank of San Antonio in Laguna and STARBANK San Pablo City	Compulsory Group Training (CBT)	To STARBANK San Pablo City - organized the bank's microcredit program; To Rural Bank of San Antonio - organized the bank's microcredit program	6 years of management experience as Executive Director; Manager; Administrative Officer; Operations Officer; Acting Assistant Department Manager; Acting Bank Executive Officer; Division Chief	MBA, San Pablo Colleges, Philippines; BS Agriculture, UPLB
	Arlene Sanchez	1 year - Manager at Kaalalay Foundation, Inc.	None	Compulsory Group Training (CBT) and Center Recognition Test (CRT)	With consultancy experience in business development operations and microcredit plans and programs at Kaalalay Foundation	Supervisor of Field Credit Officers at Kaalalay Foundation	BS Agribusiness Management, UPLB
Armdev	Elda Montero	None	None	16 years in ARMDEV as trainer and director of training programs	ADB/IMCC; Halcrow International; COWI-Philippines; World Bank; US Peace Corps	Project Manager; President and CEO; Team Leader; Training Manager; Conference Manager; Training Project Director; Head, Teacher's College Department	Certificate in Management, AIM; MA in Teaching English, University of San Carlos; MA in Human Resource Development (Units), UP; BS Education, University of San Carlos
	Anna Tenorio	2 years as Associate Microfinance Advisor at RBAP, 1 1/2 years as Program Supervisor, Training Officer at Cooperative Rural Bank of Bulacan	2 1/2 years as Assistant Board Secretary, Executive Secretary at Cooperative Rural Bank of Bulacan	Technical assistance to MABS client banks	To RBAP - technical assistance to MABS client banks; To Coop Rural Bank of Bulacan - implementation of Modified Grameen Approach lending program	None	BA Economics, University of the Philippines, Clarkfield, Angeles, Pampanga
	Arli John Nim	None	None	Extensive experience in planning, implementing and evaluating cross-cultural training programs	Part-time consultant to several local companies involved in education, utilities, banking, media, manufacturing industries and Non-Government Organizations.	Headed the Human Resources Division of three convergent broadcast networks (CBS, PBS, NBN)	BS Business Management, UP
	Gerardo C. Sison	Consultant/facilitator/trainer for various cooperative projects including Cooperative Enterprise Development - Benigno S. Aquino, Jr. Foundation; ADB - People's Credit & Finance Corporation; NATCCO; Philippine Business for Social Progress; M.A. Cordero & Associates	None	Trainer for Benigno S. Aquino, Jr. Foundation's Cooperative Enterprise Development	To the: Benigno S. Aquino, Jr. Foundation; Foundation for Sustainable Society, Inc.; NATCCO; M.A. Cordero & Associates; Philippine Business for Social Progress; Asset Resolution & Capital Strategies Inc.	Program Manager - joint project by NATCCO & the Canadian International Development Agency	Masters in Business Administration, Pamantasan ng Lungsod ng Maynila; BS Commerce, University of the East
Ancilla	Augusto Pascual	Branch Manager at TSPI for 2 years	20 years	With training experience on banking operations and enterprise development	With consultancy experience on banking operations and enterprise development	With managerial experience	BS Accounting, San Beda College
	Irmira Valdez-Iya	2 years as Microfinance Advisor, RBAP-MABS	7.5 years as Admin Assistant, Credit Analyst, Account Officer, Accounts Supervisor	2 years as trainer in <i>MABS Approach</i>	At RBAP-MABS, led in organizing training events and workshops	RBAP-MABS consultant to rural banks for 2 years	MBA, Ateneo de Manila; Masters in Agribusiness Management (9 units), UPLB; BS Agribusiness Management, UPLB
	Rychie Albert	None	With experience as investment banker	4 years on business planning, financial management, and strategic planning	Business consulting	Manager of the Research and Business Analysis Division of ABS-CBN; Corporate Planning Manager for Investment and Capital Corporation of the Philippines (ICCP)	Masters in Business Management, AIM; BA Humanities, University of Asia and the Pacific

**MSP Training Program: Post-Module Evaluation**  
Senior Management Orientation & Market Research

**SUMMARY**

Candidate MABS Service Provider	Senior Management Orientation		Market Research			
	Overall Rating	Descriptive Rating	Training Delivery	Technical Assistance	Overall Rating	Descriptive Rating
Associate Resources for Management and Development, Inc. (ARMDEV)	4.14	Pass	4.26	4.03	4.15	Pass
Anna Tenorio	-		4.26	4.03	4.15	
Arli Nim	4.14					
Punla Sa Tao Foundation	3.68	Pass	3.86	3.78	3.82	Pass
Alan Orogo	3.68		3.63	3.70	3.70	
Irmina Dispo	-		3.90	-	3.90	
Elva Pedronio	-		-	3.77	3.77	
Ancilla Enterprise Development Consulting	2.69	Conditional	4.10	3.77	3.93	Pass
Augusto Pascual	2.69		-	3.70	3.70	
Rychie Albert	-		4.10	3.80	3.95	
SEA Consultants, Inc.	3.44	Conditional	3.03	2.92	2.98	Conditional
Aristedes Lineses	4.43		4.35	4.36	4.36	
Antonio Darilay	2.98		2.47	2.17	2.32	
Moises San Buenaventura	1.95		2.29	-	2.29	
Madecor Group	3.02	Conditional	2.93	3.30	3.11	Conditional
Celso Lantican	3.02		-	-		
Arlene Sanchez	-		3.43	3.50	3.47	
Genesis Escobin	-		2.43	3.10	2.77	
Average/Organizations	3.39		3.64	3.56	3.60	
Average/Individuals	3.27		3.43	3.57	3.49	

## **ANNEX B**

### **RBAP-MABS Technical Services Unit (MTSU) Revised Role and Work Plan for 2003 & 2004**

#### **Introduction**

The Microfinance Technical Services Unit (MTSU) was established in November 2000. The purpose of the MTSU was to create an institutional structure and capacity within RBAP/RBRDFI to reinforce and continue the work of the MABS Program. The function of the MTSU was initially designed to takeover the training activities associated with the installation of MABS Approach Training and Technical Support services to rural banks. These services were to be provided on a fee basis to ensure the sustainability of the MTSU.

While a total of twelve (12) microfinance specialist trainees were hired and trained over the following two years, at the beginning of 2003 only one remains (with indications that they too will soon resign). However, during this time, the MTSU has been successful in executing the installation of the MABS Approach in eleven (11) rural banks in Luzon, three (3) rural banks in the Visayas, and partly involved in three (3) installations in Mindanao.

Following a reevaluation of the direction of the MABS Program and the role of RBAP, this note proposes a reorientation of the activities of the MTSU toward what will be known as the MABS Service Provider (MSP) Program, and the MABS Network. The MSP initiative seeks to achieve a multiplier affect by enlisting the capacity of third-party service providers to provide training and installation of the MABS Approach to rural banks on a fee basis. The MABS Network is a means to consolidate a package of Anti-Backsliding efforts to help in maintaining high quality standards among “graduated” MABS Participant Banks.

This effort will entail a scaled-down version of the MTSU centered on a MABS Program Manager, and supported perhaps by one MABS Program Assistant. Activities in 2003 will focus on building the capacity of MSPs, and in 2004 on institutionalizing Anti-Backsliding efforts within the MABS Network framework.

#### **Activities 2003**

During 2003, the activities of the MTSU will be focused on building the capacity and licensing of MSPs, while continuing to reach rural banks with the MABS Approach. This can be achieved by conducting a Dual Training Program which would take advantage of ongoing MABS Approach installations to rural banks as a training ground for MSP trainees. In this way, the MSP trainees will have the opportunity to not only receive instruction in the delivery of the MABS Approach, but also to witness first hand a MABS Approach training in process, as well as to participate in delivering components of the training themselves (tell, show, do). These two activities will be organized and conducted with the assistance of MABS technical staff in a way that provides mutually reinforcing opportunities for learning while maintaining high levels of quality training for both the rural banks participants and the MSP trainees.

Dual Trainings will be conducted in Luzon beginning in March, and later in the Visayas. By September, these activities will have resulted in the installation of the MABS Approach to

additional rural banks, and the training and licensing of (up to) fifteen MSP trainers (in approximately a half dozen MSP organizations).

#### **Activities 2004**

With an established base of MSPs licensed and operational, the role of the RBAP-MTSU will become one of primarily maintenance and the provision of mechanisms to ensure the continuation of MABS activities. Specifically support activities can be grouped into the following groups:

##### Continued Dissemination: MABS Service Providers

- **Monitoring & Reporting:** The MTSU will monitor the activities of the MSPs including ongoing installations and the performance of Participant Banks by designing a simple reporting system and through regular contact. If designed properly, most of this work can be performed by telephone and e-mail in order to limit related expenses.
- **MSP Evaluation:** The quality of MSPs will be evaluated on an ongoing basis by following up with Participant Banks to confirm satisfaction with training services. This can also be performed in large part by telephone and e-mail.
- **Annual Conference:** On an annual basis the MTSU will organize a meeting of the MSPs in order to provide updates on activities, results, innovations, adaptations, and improvements to the body of materials that make up the MABS Approach. This will be a forum for the MSPs to share experiences and discuss issues relevant to the provision of MABS Training and Technical Support services. This will also be the time when evaluations can be conducted and license renewals awarded. This event will be financed by the MSPs on a cost plus basis as part of a licensing fee to cover related expenses.
- **MABS Training Material:** Maintain, improve and consolidate contributions to the body of MABS Microfinance Technology and corresponding training manuals.

##### Anti-Backsliding Measures: The MABS Network

- **Monitoring & Reporting:** The MTSU will continue to monitor the activities of the Participant Banks. If designed properly, most of this work can be performed by telephone and e-mail in order to limit related expenses.
- **Newsletters:** A monthly/quarterly newsletter should be published highlighting the activities/progress of both Participant Banks and MSPs, as well as relevant issues and calendar items. The costs of this activity can be covered by a nominal MABS Network subscription fee.
- **Roundtables & Forums:** Perhaps the most demanding logistical activity, the National MABS Roundtable will be organized as an opportunity for MABS Participant Banks to share experiences and receive performance updates and presentations of relevant issues. This activity should be organized on a cost-plus basis to the Participant Banks.
- **Certification & Rating:** Perhaps the most important activity in support of Anti-Backsliding efforts, Best Practice Compliance Certification and Eagle Awards must be championed by the MTSU. This will involve coordinating Certification Assessments, and the convening of an Accreditation Committee. Certification and Awards can be given as part of the Annual National Roundtable.
- **Continuing training:** In coordination with the Academy of Banking the Countryside (ABC), and perhaps utilizing the services of MSPs, MABSTERS, and Learning Centers

individual trainings highlighting various topics relevant to microfinance will be organized on a regular basis. Once again, this should be done on a cost-plus basis.

### **Organization**

It is recommended that the MTSU be guided by a special committee organized under RBAP/RBRDFI. The proposed name for this committee will be the MABS Committee. The MABS Committee could be made up of MABS Participant Banks which, having the interests of maintaining the quality of the MABS brand, would be able to provide the focus necessary to support Anti-Backsliding efforts. Meeting on perhaps a semi-monthly, or quarterly basis, the MABS Committee would direct the activities of the MABS Program Manager, while the Chair of the MABS Committee would report to the RBAP-RBRDFI Board regarding the activities of the MTSU. Expenditures would be approved according to an annual budgeting procedure, with spending authority up to a fixed level provided to the MABS Program Manager, and to the Chair of the MABS committee for amounts above that. The purpose of this mechanism is to provide continuity and a structure that will allow the MABS Program Manager to work independently. It is proposed that the initial committee be chaired by the current Chairman of RBRDFI and that the members be made up of the RBAP President and MABS Chief of Party until a full committee is appointed in July 2003.

### **MABS Program Manager Qualifications**

- Familiarity with microfinance
- Familiarity with banking
- Familiarity with rural banks
- Experience with training
- Ability to work independently
- Good organizational skills
- Good communication skills
- Good writing skills

### **MABS Program Assistant**

- Good organizational skills
- Good writing skills



## **ANNEX C**

### **Evaluation of the Pilot Implementation of the MABS Accelerated Approach<sup>2</sup>**

#### **Executive Summary**

The MABS' revised training approach, dubbed the "Accelerated Approach" was piloted in six rural banks between May and December 2002. A review of the effectiveness of this approach vis a vis the approach used in prior roll-outs has revealed some significant insights. At a minimum it is clear that the Accelerated Approach has proven to be as effective in installing the MABS Approach microfinance technology in the partner banks as the prior more drawn-out approach. In addition, it appears that there have been several important improvements as a result of the training modifications incorporated into the accelerated approach. Apart from the reduced costs associated with contracting the training process from a "two year" to a six month period, the new step of requiring each bank to name a "Core Group" to lead the product development process within their respective banks appears to have had a positive impact on the banks' internal capacity to support and develop their microfinance products and services. Each bank must designate 3 senior staff members to participate in the training, with these individuals subsequently being responsible for transferring their knowledge to other bank staff members. This has resulted in:

- reduced need for outside TA, and therefore reduced cost;
- greater "buy-in" from senior members of the banks staff who are part of the core group, and therefore more quickly and carefully developed loan products and procedures; and
- a greater degree of acceptance from other divisions of the bank.

The Accelerated Approach has benefited by incorporating lessons learned during past experience, and developing tools such as case studies and directed learning exercises based on those experiences.

If any problem areas were noted it was in ensuring an adequate understanding of CIBI and cash flow analysis. Several of the participating bank indicated that additional training would help them to solidify their understanding. This is currently being factored into the training that will be offered made to the next rollout.

Finally, a comparison of the quantitative outputs produced by the fifth rollout banks (those trained while piloting the Accelerated Approach) indicate results that equal to or surpass those produce by participants banks trained in earlier rollouts.

#### **Background**

By the end of 2001, MABS had attained, if not surpassed most of its outreach targets for the period. Despite this, two concerns became apparent. First, the RBAP Microfinance Technical Services Unit had not yet attained financial sustainability. Second, the MTSU had not been able to significantly accelerate the pace of the rollout to new partner banks. A significant factor

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<sup>2</sup> Revised March 7, 2003

contributing to this situation was the cost of the program of technical assistance provided to the banks. As a possible result of reducing the costs of installing the MABS Approach into banks seeking this, a revised and Accelerated Approach to providing the required technical assistance was developed, and subsequently pilot tested between May and December, 2002.

## **The Accelerated Approach**

### **1. Description**

The Accelerated MABS Approach was designed to address two of RBAP's primary concerns: (i) achieving financial sustainability of the RBAP MTSU, and (ii) accelerating and increasing the dissemination of the MABS Approach to rural banks. At the same time, it was recognized that the Accelerated Approach must continue to achieve the high level of quality associated with the "traditional" MABS Approach. The Accelerated Approach shortened the training and technical assistance period from two years to six months, significantly reducing the costs of the MABS Approach installation, in terms of time and resources, to both MABS and the banks. In addition, it reduced the need of participating banks for on-going microfinance training and technical assistance by attempting to develop a Core Group of microfinance "trainers and experts" within the banks.

Under the original approach, MABS delivered a five-day classroom training program with the candidate bank's Microfinance Unit staff as participants. Upon completion of the training, the MABS staff made bank visits every month during the first six months and every two months during the next 18 months. Under the Accelerated Approach, the training materials were revised so that an in-house training capacity is developed in each bank, thus reducing the number of TA visits provided in the larger approach. The Accelerated Approach requires that participants complete 6 training modules after each of which they are expected to produce specific outputs. The RBAP-MABS team visits the banks after certain training modules as indicated in the following matrix which provides an overview of the Accelerated Approach:

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7
Training Module	Sr. Managers Orientation Course	Market Survey	<ul style="list-style-type: none"> <li>• Product Dev't</li> <li>• Business Planning</li> <li>• MIS Gap Analysis</li> <li>• Setting up the MFU</li> </ul>	CIBI & borrower cash flow analysis	Management Information system	<ul style="list-style-type: none"> <li>• Loan Delinquency Managemnt</li> <li>• Internal Control</li> <li>• Product Review</li> </ul>	Operations Review
Duration	2 days	3 days	5 days	3 days	3 days	5 days	
TA	-	3 days	3 days	6 days	-	-	3 days
Outputs	Core group organized	Market Survey reports	Product manual, business plan, MIS gap analysis report, MFU organized, AOs hired	Start of product test	MIS reports, monthly MFU performance reports	Enhancements to product features and lending procedures	End of product test, operations review report, product launching
Participants	COOs & core group leaders	Core group	Core group	MFU Supervisor or & AOs core group	Core group MIS head/ staff	Core group	

## 2. Pilot implementation team

Training and technical assistance were delivered primarily by the RBAP MTSU staff. Mr. Raiké Quinones, as MABS Training Manager, supervised the training component of the MABS Approach. Mr. Nonoy Tan supervised the provision of on-going technical assistance to the participating banks.

## 3. Bank Participants

Six banks participated in the pilot phase of the Accelerated Approach: Banko Mabuhay (Cavite), JP Laurel bank (Batangas), RB Mabitac (Laguna), RB Pagbilao (Quezon), Country Bank (Oriental Mindoro), and RB Santiago de Libon (Albay). These banks are referred to as the *MABS Fifth Rollout*. Each bank sent an average of three participants per classroom training session which was held at one centralized location.

### **Pilot Test Objectives**

In order to determine the efficacy of the Accelerated Approach to achieve the above stated objectives (reduced costs, increased and accelerated dissemination, maintain quality), the following questions were put forth:

- Were course participants able to design and pilot test their microfinance products within the specified period of time?
- Were core group members able to train and coach the members of their own microfinance unit adequately?
- Was the requirement for intensive technical assistance reduced?
- Was the course fee adequate to cover the associated costs of providing the Accelerated Approach training course and TA?
- Was the quality of the MABS Approach training and technical assistance maintained.

During the pilot test period, the MABS team trained the RBAP-MTSU to deliver the Accelerated Approach. Accordingly, the pilot test also aimed to determine the ability of the MTSU to deliver the quality and training and TA.

To determine whether the Accelerated Approach was as effective as the original approach, it is useful to compare the performance of the banks under the Accelerated Approach (fifth rollout) versus the banks that underwent the “two-year” approach (first, second, and third rollouts). However, it is important to keep in mind that the first to third rollout banks were selected based on clearly defined criteria (financial strength, strong management commitment to implementing microfinance operations, well established procedures, etc.). Under the Accelerated Approach, the banks were accepted on a first-come-first-serve basis without the same consideration for the strength of the banks entering the training program. Additionally, MABS provided assistance to first, second, and third rollout participant banks in the form of equipment and subsidized training, which could favor them when comparing their performance to the fifth rollout banks.

### **Evaluation Methodology**

The following methodology was used to evaluate the Accelerated Approach:

- Visited two participant banks under the 5<sup>th</sup> rollout: RB Mabitac in Infanta, Quezon and Banko Mabuhay in Cavite. The evaluator conducted a process review to determine the skill, level of understanding, and appreciation of microfinance exhibited by loan officers and their supervisors. The evaluator also reviewed loan files, interviewed two active clients, observed a Credit Committee meeting, and interviewed senior management;
- Reviewed the materials included in the loan files of each bank. The materials were reviewed for completeness and consistency;
- Conducted telephone interviews with three participants of the Accelerated Approach training; and,
- Reviewed the performance data of the fifth rollout banks. This data was then compared to each bank's targets. The banks' performance data was also compared against the performance of the first, second and third rollout banks.

## **Results**

1. **Five of the six participating banks were able to design and pilot test their microfinance products within the specified period.** Two banks began releasing loans in September 2002, barely two months after the product development module. Three banks started in October (these three banks decided to wait for their management information systems to be put in place before disbursing loans).

As of the end of January 2003, two banks have already started offering microfinance loan products in some of their other branches. One of these banks even conducted a bank-wide training for all of their managers on the MABS Approach during December. This bank intends to rollout the MABS-assisted microfinance product within the year to all its branches.

The only bank (JP Laurel Bank) that has not yet started offering a microfinance product has designed a product prototype and has completed a loan manual. However, management has decided to defer the product implementation until a later date. The delay is caused by a lack of commitment by the owners of the bank and not because of any perceived deficiency in the Accelerated Approach.

2. **Participant banks have demonstrated the ability to train and coach members of their own MFU staff adequately.** Again, this is true for five out of six banks. In these banks, the members of the Core Group (mostly from the top management) have been able to re-create each training module adequately for their respective MFU staffs. Most banks hired their MFU staff soon after undergoing the market research module. Additionally, before the product development module, the banks had already assigned supervisors to their respective MFUs. One bank (RB Mabitac) even assigned a Product Manager to oversee the training of staff, as well as the product implementation. Assigning a point person to make sure that all the training modules are effectively delivered is fundamental to the smooth delivery of the training. Based on interviews of selected account officers, they would appear to have developed a keen understanding of the MABS technology. They have also inculcated the kind of discipline recommended by MABS to be able to implement a successful microfinance program.

**Notably, the depth of understanding or level of skills of account officers trained by the Core Group members are comparable to those who were directly trained by the MABS team.** In addition, the fifth rollout banks also made sure that their microfinance

products gained bank-wide acceptance. The Core Group members held consultations with some bank staff and conducted orientations on the microfinance product before it was launched. Only a few banks from the previous rollouts made efforts to make the rest of the bank appreciate and understand the microfinance unit. Not doing so has often resulted in feelings of alienation and in some cases, even demoralized the MFU staff.

3. **Intensive training has significantly reduced the need for technical assistance.** Under the traditional MABS approach, the participants were trained for five days, including a two-day field exposure. After the five-day training, the MABS team extended intensive TA to individual bank. Under the Accelerated Approach, increased emphasis is placed on quality training combined with a series of directed and practical learning activities. The number of training days has been increased, achieving greater efficiencies by allowing the training of a number of banks simultaneously, while reducing the more costly technical assistance provided to the individual banks. In designing this new curriculum, lessons learned from the earlier training modules were distilled, case studies developed and a rich participatory training was created. The new design incorporates experienced resource speakers (such as supervisors of successful participating banks) and various classroom exercises, and requires participants to create tailored action plans after each training session.

Post training evaluation reports submitted by the RBAP MTSU, indicate that the Accelerated Approach has not compromised the quality of the MABS training. In fact, several hoped for advantages seem to have emerged, including a better in-house capacity to train new staff in the MABS technologies. According to the evaluation reports, the banks were able to conduct market surveys, develop their loan products and operations manuals, complete their business plans, and conduct their own MIS gap analysis with minimal assistance from the RBAP MTSU. Several interesting observations were noted by the core group members:

- CIBI and cash flow analysis modules presented the biggest challenges, something to keep in mind for future training.
- The number of TA days should be increased from 6 to 9 days, and broken up into two TA visits.
- RBAP-MABS trainers should help the bank ascertain the proficiency of the bank (both management and MFU staff) to do proper CIBI and cash flow analysis after a certain period or some time after the last classroom training.
- Although they agreed that they are well on their way to operating successful Microfinance Units, the Core Group members stated that if RBAP-MABS extends the number of TA days on CIBI and cash flow analysis, they would have felt confident to disburse more loans during the first two months.

4. **The course fee is adequate to cover the costs of running the Accelerated Approach, based on a direct cost analysis of RBAP.** During the pilot phase, the participant banks were charged PhP101, 500 each. The course fee covered the training materials, salaries, transportation, lodging, per diem, and airfare of trainers. For each classroom session, the participants pay for the venue and meals. Based on direct cost analysis (no overhead), the MTSU showed positive net income (over PhP150,000). However, this scenario also takes into account some subsidies, albeit limited, provided by MABS. Subsidies include the time and travel expenses of the supervisory team, as well as logistical requirements such as equipment, office space, etc. Thus, it is recommended that RBAP review the

training charge, as well as the cost structure. It is important to mention though that participants found the course fee to be reasonable.

5. **The RBAP MTSU staff was sufficiently trained to deliver the accelerated approach.** Mr. Quinones and Mr. Tan as training and TA delivery supervisors respectively, gave the MTSU a free-hand in conducting the Accelerated Approach. The role of the MABS team was limited to making sure that the materials were enhanced, developed, and prepared, as well as to providing inputs when necessary, and to reviewing the results of the training and TA. The MABS technology on individual lending does not vary under the Accelerated Approach. Thus, it was not difficult on the part of MABS to familiarize the MTSU staff with the Accelerated Approach because they were already familiar with the original two year MABS Approach.
6. **Based on some indicators, the banks that piloted the Accelerated Approach (fifth rollout) are performing as well as the banks under the two-year approach.** The performances during the first three months of lending of the banks under the first, second, third, and fifth rollouts were compared. In terms of the number of active borrowers per account officer, the fifth rollout showed an average increase of 40% per month, almost nearly equal to the second rollout banks, and better than the third. The third rollout showed a strong growth curve during the first month, but slowed significantly between the second and seventh month. The first rollout demonstrated a steady increase in terms of the number of borrowers per account officer. However, the fifth rollout banks seemed to have bigger loan portfolios. The loan portfolio per account officer of the fifth rollout is 30-40% larger than the third rollout, and almost as big as those of the second rollout. Compared to the first rollout, the fifth rollout showed a much bigger loan portfolio during the first and third months. The fifth rollout banks disbursed larger loans as demonstrated by the average size of loans disbursed. During the first month of lending, the fifth rollout released loans which were 33% to over 70% bigger than the other rollouts. In the third month of lending, the fifth rollout released loans which are 20% to over 60% bigger. In summary, the fifth rollout banks have larger loan portfolios, compared to the previous rollouts. However, they have smaller numbers of borrowers. This means that they released bigger loans (which, depending on the product pricing, may mean greater financial returns). Comparisons are detailed in the attached annex.

#### **Conclusions/ Recommendations:**

1. Working with Core Groups as a part of the Accelerated Approach resulted in a number of positive effects.
  - Banks have “in-house” experts to provide guidance and support to their respective microfinance units.
  - Establishing an MIS, getting Board approval on the product manual, and other key decisions took less time when the senior management played a larger role in the training as members of the Core Group.
  - Fifth rollout banks whose members of the Core Group were the same throughout the entire training period were able to establish their microfinance units more quickly and effectively than the banks whose Core Group members varied.
  - “Buy-in” from senior management was greater when they participated as part of the Core Group. Direct involvement of the bank CEO is essential most particularly during the product development phase. When the CEO is a member of the Core

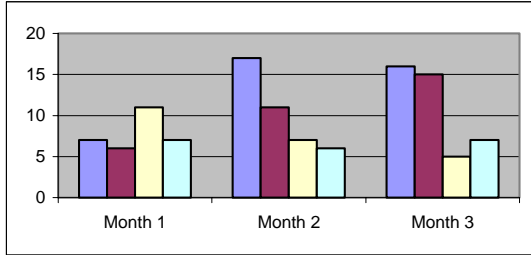
Group, the decision-making is quick and thus, the recommended MFU action plan is more often implemented.

- Time considerations were cited as one obstacle to the participation of board members and senior bank staff as members of the Core Group. Thus, they recommended that RBAP-MABS provide a definite schedule of all the training for the period, so that the core group members can turn over some of their important tasks to other bank officials.
2. Review and enhance the training materials. Some participants mentioned that the case studies and exercises helped them understand the modules better. They requested that more cases be developed, especially for CIBI and cash flow. They also requested more fieldwork or hands-on training. A representative from one bank also suggested that the case studies and exercises be discussed after each workshop, or that the trainer go through the cases with them, so that the participants can understand how the trainer arrived at respective conclusions or responses. It would also be helpful if a training evaluation methodology be prepared to assess the performance of the trainees during the training. Knowing the participants' performances will guide RBAP-MABS in knowing who or what to focus on when making TA visits.
  3. TA activities should be standardized. It is recommended that a set of well-defined activities be used as standard TA activities. Although the RBAP-MABS staff knows what to deliver when conducting visits, the review of the trip reports showed that the TA continues to vary depending on the person rendering the TA. When visiting banks, it is best to follow-up on the action plans that were prepared by the participants during training. It is also recommended that a standard report format be used.
  4. In order to maximize the positive impact of the Core Group, at least one member should be from the senior management of the bank.
  5. The need for a greater number of days of TA provided during the CIBI module should be addressed in response to requests from the 5<sup>th</sup> rollout banks.
  6. Continued monitoring should be conducted in order to assess the performance of the 5<sup>th</sup> rollout Accelerated Approach participant banks as compared to previous installations.

Performance Indicators by Rollout Banks

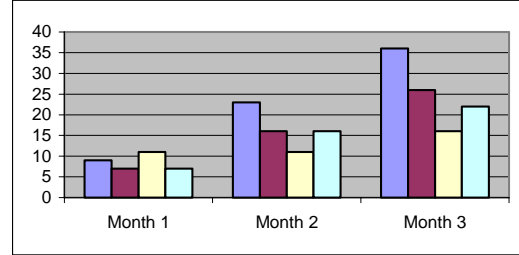
Number of Loans Disbursed Per Account Officer/Month

Rollout	1st	2nd	3rd	5th
Month 1	7	6	11	7
Month 2	17	11	7	6
Month 3	16	15	5	7



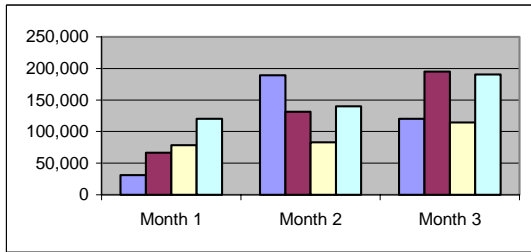
Number of Active Borrowers

Rollout	1st	2nd	3rd	5th
Month 1	9	7	11	7
Month 2	23	16	11	16
Month 3	36	26	16	22



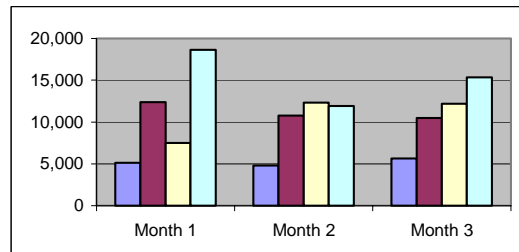
Loan Portfolio Per Account Officer

Rollout	1st	2nd	3rd	5th
Month 1	31,233	66,509	78,540	120,263
Month 2	189,358	131,428	82,902	140,103
Month 3	120,193	194,925	114,446	190,571



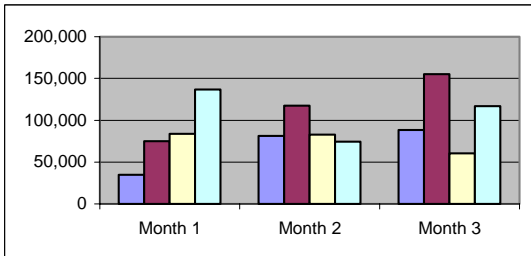
Average Size of Loans Disbursed/Month

Rollout	1st	2nd	3rd	5th
Month 1	5,128	12,357	7,493	18,638
Month 2	4,816	10,773	12,296	11,920
Month 3	5,640	10,493	12,183	15,336



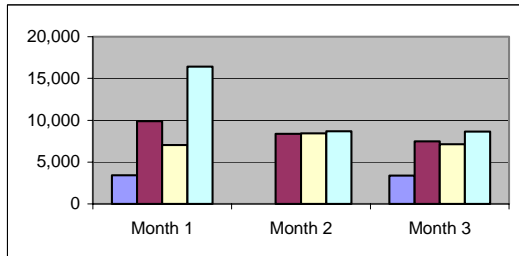
Amount of Loans Disbursed Per Account Officer/Month

Rollout	1st	2nd	3rd	5th
Month 1	34,783	74,967	83,667	136,667
Month 2	81,252	117,476	82,902	74,500
Month 3	88,272	155,109	60,510	116,937



Average Outstanding Loan Size

Rollout	1st	2nd	3rd	5th
Month 1	3,405	9,878	7,033	16,400
Month 2		8,364	8,435	8,688
Month 3	3,371	7,472	7,138	8,662

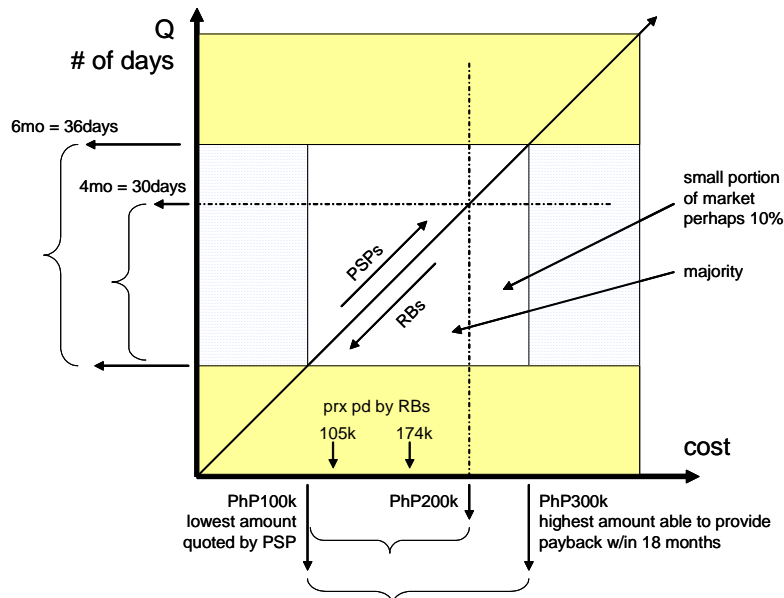




## ANNEX D

### Project Constraints

A discussion regarding the constraints associated with the MSP initiative is aided by referring to the **diagram of constraints** produced below. Direct relationships are established between quality, cost, and the number of days of training and technical services provided. High and low price levels for the MABS Training and Support product are determined to be PhP300k and PhP100k respectively (blue fields in diagram). The upper limit is based on a financial projection which assumes the development of a microfinance unit including 5 loan officers and a loan portfolio growing to approximately 400 loans producing profitability within 12 months and payback for an investment of PhP300k in training by the 18<sup>th</sup> month, the highest price that a bank would be willing to pay for the MABS product. PhP300k is also the highest price requested by a candidate MSP in order to provide MABS Approach services. The low end is based on the lowest price demanded by a candidate MSP to provide MABS Approach services. It is ventured that only a very small percentage (10%) of banks would be willing to pay for services at the high end of the scale, and that the majority would fall within a range between PhP100k and PhP200k. Willingness to pay within this range is also evidenced by previous experience with banks that have actually paid amounts of PhP105k and PhP174k.



We are now able to use the direct relationships we established above to suggest a corresponding high and low end for quality using number of days of training and support services provided as a proxy. Potential MSPs have indicated that in order to provide the services outlined in the MABS Accelerated Approach (36 days of classroom training and in bank technical assistance over 6 month modular course), they would need to charge PhP300k. It is ventured that in order to reach the majority of the market for MABS Approach Training and Technical Support services, the price of that product must be brought down to below PhP200k (rather, 30 days of classroom training and in bank technical assistance over a 4 month modular course). A description of this product is provided in **Modular Training Course**.

## **ANNEX E**

### **MABS Approach Modular Training Course**

#### **Overview**

The MABS Approach Modular Training Course is aimed at building the capacity of rural banks to provide profitable microfinance services. It is not just a training course, but is essentially a guided product development process, at the end of which banks shall have successfully completed the development and testing of their respective microfinance products before launching these in the rest of their branches or service areas.

#### **Main Features**

1. The course consists of four modules that are delivered one at a time over a period of four months.

The modules are organized following the basic steps in the product development process, viz. market research, product design, financial projections, microfinance best practices (cash flow lending) and product testing. Each module is offered after an interval of between two weeks and one month to allow time for course participants to complete required tasks in their respective banks. (A detailed description of the various modules is shown in the section on Course Modules below.)

2. The course includes built-in technical assistance (TA) to help banks go through the more critical phases of the product development process.

The course consists of 15 training days and 15 days of TA. At certain phases of the product development process, follow-up visits to the banks are made to do on on-the-job coaching of the bank's microfinance staff, and assist in the analysis and work out of product design and product delivery problems.

3. The course focuses on building the capacity of the bank's microfinance product development team.

The bank's product development team (or microfinance core group) will be trained intensively on the MABS Approach to microenterprise lending. The core group will take the lead in designing and pilot-testing the bank's microfinance product. Its members will also serve as the banks' in-house experts and trainers in microfinance. Banks can send up to three members of their core groups to participate in the course.

#### **Benefits to Banks**

1. The product development process is broken up into a series of training modules and taught one step at a time. This approach enables banks to plan and implement their microfinance operations in a systematic way.

2. The course generates concrete training results. At the end of each module, the participants are required to complete one step of the product development process in their respective banks. By the end of the course, the banks shall have completed the development and testing of their own customized microfinance products.
3. Availability of on-site consulting services. The course has a built-in technical assistance for helping the banks complete the more difficult tasks in the product development process. While the specific number of days of TA included in the package is considered to be satisfactory for each stage of the product development process, additional days can be purchased by the bank as needed.
4. Opportunity to share experiences with other banks. The staggered delivery of the course allows the participating banks to meet on a regular basis and to share and compare notes on their experiences.
5. Banks become less dependent on external trainers and consultants. By focusing on training the core groups, the course develops the bank's in-house expertise in microfinance.

### **Other Applications**

The course can also be of relevance to Rural Banks in developing or enhancing other bank products, as well. Many MABS Participant banks, for example, have adopted the MABS cash flow analysis procedure in their regular loan products. Other banks now require their branches to do market research and financial projections before covering a new service area. The principle of "zero tolerance" applied to bank's non-microfinance loan portfolio has been successful in improving quality and increasing income.

### **Course Modules**

1. Orientation for Senior Management (2 days)

This module is intended for the top management of participating banks primarily to orient them about microfinance, the MABS Program, and the critical role of top management in ensuring a successful microfinance operation. Participants are given an overview of the MABS Approach, best practices in microfinance, and costs and income projections of a typical microfinance operation. Participants are also brought to a MABS participating bank where they interact with and learn directly from the experiences of a rural bank-microfinance practitioner.

After this module, the participating banks are expected to organize their product development teams, or core groups, whose members will be trained intensively on the product development process.

2. Market Research (3 days)

This module is intended for the members of the banks' core groups who will be doing the market research activities after the training. The major topics that will be discussed in this module include the product development process, market survey procedures, and survey data tabulation and analysis. A one-day fieldwork allows the participants to try out the market research activities in a selected community.

After this module, the participants are expected to implement market research activities in their respective banks and to complete these within 4 weeks. As the core groups implement the market research activities, consultants visit the banks to provide three-days of on-the-job-coaching and guidance to each bank.

### 3. Product Development (5 days)

This module is intended for the members of the banks' core groups who will be doing the product development activities after the training. The major topics that will be discussed in this module include determining the size of the microfinance market (using the bank's survey data), determining the features of the microfinance product, effective interest rates and yield computations, focus group discussion, lending systems and procedures, MIS gap analysis and reporting for microfinance, financial projections, preparation of the product manual, and organizing the bank's microfinance unit. This module will also cover internal control problems and procedures, as well as loan administration procedures, and product review procedures.

After this module, the participants are expected to implement the product development activities in their respective banks and to complete these within 4 weeks. The outputs to be submitted by the participants to their respective banks will include: a product concept paper, MIS gap analysis, financial projections (24 months), results of the focus group discussion with target clients, a product manual, and the format of required loan documents. Participants are also expected to start preparing and submitting their weekly and monthly performance reports to their respective management and to the MABS Program.

As the core group implements these activities, a consultant will visit the banks to provide three-days of on-the-job-coaching and guidance to each bank.

No TA will be provided for MIS. However, banks will be encouraged to link up with their respective software providers for their technical assistance requirement.

### 4. CIBI and Borrower Cash Flow Analysis, and Loan Delinquency Management (3 days)

This module is intended for the members of the core group who will be training and supervising the bank's microfinance staff regarding appropriate methods for selecting clients. The major topics that will be discussed in this module include: credit investigation and background investigation procedures (CIBI), as well as borrower cash flow analysis procedures. A one-day fieldwork project will test the participants' new skills in CIBI and cash flow analysis.

This module is intended for the members of the core group who will be supervising the activities of the bank's microfinance unit. The major topics that will be discussed in this module include: Concept of zero tolerance against delinquency, loan delinquency monitoring and prevention, remedial management

After this module, the participant banks are expected to start their three-month product test. A consultant will visit the banks to provide three days of on-the-job-coaching and guidance to each bank at the start of the bank's lending activities, and another three-day TA per bank at another point within the three-month product testing period.

Following three months of lending, bank participants are expected to review the performance of their respective products and to revise their product manuals, if necessary.

5. Operational Review (3 days)

To be conducted six to ten months after the beginning of lending operations, three-days of TA is provided by RBAP-MABS. A comprehensive review (operations review) will be conducted by RBAP-MABS to determine whether the product has been sufficiently tested and, particularly, whether it is ready for launching in other branches or service areas of the bank.

## **Annex F**

### **The MABS Service Provider (MSP) Training Program**

#### **Course Objective**

In order to develop the capacity of third party MABS Service Providers (MSP) to provide MABS Approach Training and Technical Support services to End Users, the following Dual Training Program is prescribed. The objective of the course is to ensure that MSP Trainers are fully qualified and capable of providing high quality training and technical assistance services.

As a means to providing MSP Trainees with first hand exposure to and practice in the MABS Approach microfinance training product, the Trainers Training Course will be conducted alongside the MABS Approach training to Rural Banks. These two activities are organized and conducted by MABS technical staff in a way that provides mutually reinforcing opportunities for learning while maintaining high levels of quality training.

#### **MABS Approach Modular Training Course**

MSPs will be trained in what is known as the MABS Approach microfinance technology. The MABS Approach is promoted as “a right way” to do microfinance, and is designed as a Modular Training Course aimed at building the capacity of End Users to provide profitable microfinance services. It is not just a training course, but is essentially a guided product development process, at the end of which banks shall have successfully completed the development and testing of their respective microfinance products before launching these in the rest of their branches or service areas.

The course consists of four modules that are delivered one at a time over a period of four months. The modules are organized following the basic steps in the product development process including market research, product design, financial projections, microfinance best practices, and product testing. Each module is offered after intervals of between two weeks and one month to allow time for course participants to complete required tasks in their respective banks.

The course also includes a built-in technical assistance component (TA) to help End Users go through the more critical phases of the product development process. At these times, technical staff conduct follow-up visits to do on-the-job coaching of the organization’s microfinance staff, and assist in the analysis and work out of product design and product delivery problems.

The course focuses on building the capacity of the End User’s microfinance product development team. The organization’s product development team (or microfinance “core group”) will be trained intensively on the MABS Approach to microenterprise lending. The core group will take the lead in designing and pilot-testing the End User’s microfinance product. Its members will also serve as the organization’s in-house experts and trainers in microfinance. End Users can send up to three members of their core groups to participate in the course.

The course consists of 15 in classroom training days and 15 days of TA. The MABS Approach Modular Training Course (i) enables End Users to plan and implement their microfinance

operations in a systematic process, (ii) generates concrete training results by completing the development and testing of the End User's microfinance products, (iii) supplies on-site technical assistance during the more difficult phases of the product development process, (iv) provides opportunities to share experiences with other organizations on a regular basis, and (v) develops in-house expertise in microfinance.

### **MSP Trainer Training**

Simultaneously, training will be conducted in order to build capacity in support of the MABS Service Provider (MSP) initiative. Under this model, third party MSPs are trained to become trainers of the MABS Approach, then licensed by the Rural Bankers Association of the Philippines (RBAP) to provide training directly to End Users that wish to enter the microfinance market. The MSP Training Program also includes instruction on the provision of technical assistance, as well as follow-up services such as Operational Reviews (OR). Satisfactory completion of the MABS Training Program course allows the consultant to be certified as a qualified MABS Approach Trainer as a member of the Key Personnel of a licensed MSP organization.

The Trainer Training curriculum will include an overview of the MABS Approach training process, microfinance principles, and presentation skills, as well as exposure to providing technical assistance and the business development skills necessary to reach End Users.

In order to properly train consultants to become fully qualified MSPs, the MSP Training Program will provide not only classroom instruction, but also the opportunity to witness actual MABS Approach trainings, as well as providing opportunities for Trainees to deliver training presentations and technical assistance (tell, show, do). Conducting the MABS Training Program alongside the MABS Approach training offers an excellent opportunity to accomplish these goals. Following intensive instruction from MABS Technical Staff, Trainees will assist in the preparation of MABS Approach training modules, and then deliver various components of each of the modules to Rural Bank clients under the supervision of MABS Technical Staff. The same procedure will follow for the TA visits as well. All of this will be performed under the close supervision of the MABS technical staff in order to insure the quality of training delivered to the Rural Banks.

### **Course Design**

The MSP Trainer Training Course begins with an intensive one-week overview of microfinance, the MABS Approach, and overview of what is to be expected over the five months of training. Topics include the following:

#### **What Is Microfinance?**

- Definition & Importance of Microfinance
- Characteristics of Microfinance
- Microfinance Methodologies
- Microfinance Best Practices

#### **The Philippine Rural Banking System**

- Mandate, Size & Performance of the RB System
- Characteristics of Philippine Rural Banks
- Functions, Programs, Activities & Structure of RBAP

MABS Overview

- Program Background & Objectives
- Management Structure
- Major Activities & Accomplishments
- Current & Future Thrusts

The MABS Approach Modular Training Program

- Background & Objectives
- Components of the Training and TA Package
- Benefits to Rural Banks
- Costs & Fees

Role of Service Providers

- Background & Objectives
- Demand for MABS training & TA services
- Role of Service Providers
- Selection, Training & Accreditation of Service Providers

MSP Trainer Training Program Overview

- Objectives of the Training Program
- Overview of the Seven-Month Training Program
- Overview of the Various Training Modules & Materials

The remainder of the MSP Trainer Training Course will follow the delivery of a MABS Approach Modular bank training which consists of four phases which are delivered over a five-month period, including Senior Management Orientation, Market Research, Product Development, CIBI and Cash Flow Analysis, and Operations Review.

During the course, the trainees, themselves, will be expected to deliver training and TA to client Rural Banks under the supervision of the MABS Technical team. The trainees will be trained on how to deliver a particular module before they will be asked to deliver the said module before actual client rural banks. After each module, the performance of each trainee will be evaluated by an evaluation panel. At the end of the course, a final evaluation of each trainee's performance will be completed and accreditation awarded to those that meet program standards.

Finally, additional in classroom instruction will be provided to MSP trainees on topics including marketing and other MABS Technical Training Resources. An overview of the rural banking sector, its characteristics, and methods for reaching clientele will be discussed along with the presentation of marketing materials prepared for this purpose. The use of MABS Learning Centers as well as MABSTER participant bankers will be introduced and promoted as a valuable resource for MABS Approach installations.

The main instructional materials will be the Training Manual and the Technical Assistance Manual. The Training Manual, which describes how each of the training modules should be delivered, will be the trainees' guide when they train End Users. The TA Manual, on the other hand, describes how the technical assistance visits should be performed, will serve as the trainees' handbook when they go to the banks to assess their client rural banks' performance and provide technical advice.



MSPs are expected to provide Key Personnel to attend the MSP Training Program. The qualifications of the trainees should include experience with microfinance, banking (preferably with rural banks), and training/consulting. Upon completion, the trainers will be certified as qualified to deliver MABS Approach Training and Support services in cooperation with a licensed MSP. While trainees may choose to specialize (and be certified) in one or another module, an MSP firm will not be granted a license unless it is able to demonstrate its ability to provide the complete MABS Training and Technical Support services package, which will require that at least one individual in the organization has completed the whole MSP Training Program and is thus able to act as coordinator and “champion” of the MABS product within the MSP.

The MSP Training Program will require approximately 60 days distributed over a period of 6 months, about half of which will be spent in classroom training, a quarter attending and participating in MABS Approach classroom training to Rural Banks, and the remainder involved in the delivery of Technical Assistance services to the Rural Banks.

## **ANNEX G**

### **Best Practice Compliance Certification**

This report presents A Best Practice Compliance Certification process for rural banks following the MABS Approach microfinance technology.

#### **Rationale for Certification**

The Microenterprise Access to Banking Services (MABS) Program is implemented by the Rural Bankers Association of the Philippines (RBAP) and was initiated in 1998 with funding support from USAID to develop the capability of rural banks to profitably provide financial services to microenterprises in the Philippines. The MABS Program, through rigorous technical assistance provided by MABS consultants, helps participating rural banks to implement microfinance product development strategies according to established best practices in order to assist participating rural banks to increase the provision of financial services to microenterprises. To this end, the MABS Program has developed the MABS Approach Training and Technical Support Program.

The MABS Approach involves the transfer of proven Filipino and international microfinance best practices, technologies, loan pricing methods, and deposit mobilization techniques to assist banks in expanding their loan and deposit portfolios. The MABS Approach emphasizes that participating banks make microenterprise loan and deposit services a regular part of their portfolios. It is expected that MABS participant banks will set an example and will encourage other rural banks in the Philippines to expand the provision of financial services to the microenterprise market. Since inception, 37 rural banks (102 banking units) have received training and hands on technical support as they developed financial services utilizing the MABS Approach.

Following the success of MABS participating banks in developing profitable microfinance operations, there is a growing demand for MABS Approach Training and Technical Support services among the 770 rural banks operating in the Philippines. In order to increase the and accelerate the dissemination of MABS Approach Training and Technical Support services, a Modular Training Course has been developed whereby the senior management of several rural banks undergo intensive training over a period of four months. Additionally, the capabilities of third party service providers are being enlisted to provide MABS Approach installations. As part of the MABS Approach Modular Training Course, an assessment of the progress of each rural bank is be carried out after six months of lending operations or when the rural bank's loan portfolio reaches 100 clients to observe the banks progress and provide recommendations prior to expansion into additional areas or branches.

Best Practice Compliance Certification is proposed as a means to officially acknowledge the achievements of newly trained MABS participant banks. The Certification is a one time recognition of a banks' fulfillment of basic requirements considered to be essential for the prudential provision of financial services to microenterprises.

### **Elements of the Certification Process**

- All rural banks that have undergone the MABS Approach Training and Technical Support program and are engaged in providing financial services to microenterprises may apply for Certification.
- The Certification process is voluntary.
- The Certification is awarded only once and is valid for a period of one year.
- The Certification only confirms the presence of essential infrastructure required for the provision of financial services to microenterprises utilizing microfinance best practices. The certificate does not attest to the quality of services provided or overall bank performance. An assessment and/or rating of the bank are required in order to evaluate the performance of the banks.
- This Best Practice Compliance Certification is distinct from the MABS EAGLE rating program which measures the actual financial performance of rural banks.<sup>3</sup> The MABS Best Practice Compliance Certification is used to officially acknowledge MABS participant banks, as well as serving as a preliminary requirement for rural banks applying for the EAGLE rating.
- Documentary requirements for the Certification are minimal.
- The application and supporting documents for the Certification are verified by MABS or a licensed service provider.
- A reputable accrediting body issues the Certification.
- A small fee is charged for issuing the Certification.

### **Benefits of Best Practice Compliance Certification**

Rural banks which have been trained using the MABS Approach and have been engaged in providing financial services to microenterprises for a short time may wish to be recognized as MABS Participant Banks and correspondingly their commitment and efforts to adhere to microfinance best practices. The Certification shall be required as a preliminary step towards receiving an EAGLE rating. MABS Service Providers (MSPs) may use the Certification as a means to motivating rural bank clients to implement microfinance best practices. Also, it can help them establish business relationships even after the six-month training under modular MABS Approach by identifying areas that need to be strengthened to fulfill the requirements for the Certification.

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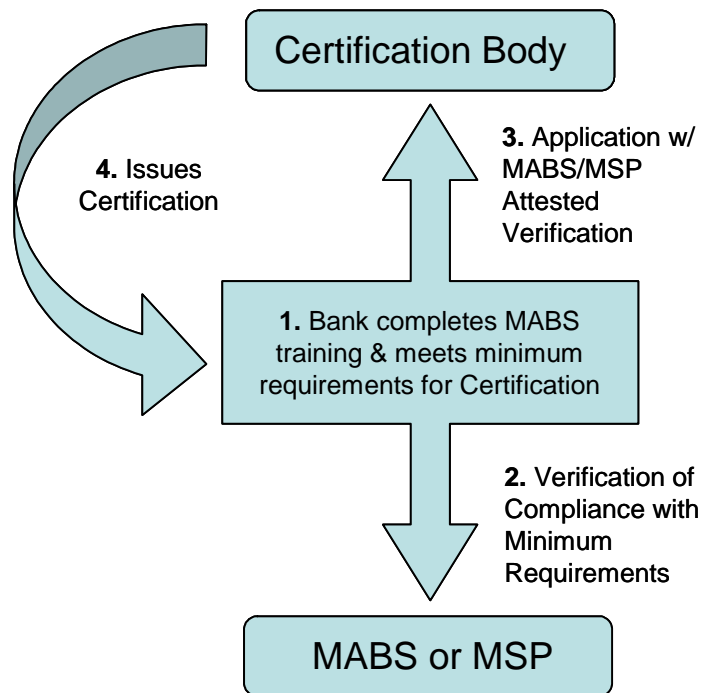
<sup>3</sup> The EAGLE rating is a scoring/rating methodology developed by RBAP/MABS to measure the financial performance of rural banks. The EAGLE rating is based upon 10 quantitative indicators to measure performance in five areas including Efficiency, Asset quality, Growth in portfolio, Liability structure and Earnings. For more information on the EAGLE rating program, refer to "EAGLE Rating of Rural Banks in the Philippines", RBAP/MABS, March 2003.

## **Certification Process**

The Certification process involves four steps:

1. Banks complete MABS Approach training and begin providing financial services to microenterprises.
2. As part of Operational Review conducted approximately six months after the beginning of lending operations (or when the loan portfolio reaches 100 active clients), verification of minimum requirements for Certification is made.
3. Banks forward application for Certification to the Certification body.
4. The Certification body reviews applications and issues Best Practice Compliance Certification.

The Certification Process is illustrated in the following diagram:



## **Operational review by technical assistance provider**

The technical assistance provider conducts an Operational Review of banks trained using the MABS Approach six months after the beginning of lending operations or when the bank's microfinance loan portfolio has reached at least 100 active clients. The review primarily checks if the bank has successfully implemented their new microenterprise product utilizing the MABS Approach and also helps to identify areas that require further strengthening. The technical service provider who conducts the operations review can verify that the bank has fulfilled the minimum requirements established for Best Practice Compliance Certification. The bank can then forward the technical service provider's recommendations along with its application for Best Practice Compliance Certification to the accrediting body. In order to maintain the integrity of this mechanism, the Certification Body Program shall periodically conduct random audits of the

applications attested to by the technical assistance providers. This may involve limited on-site examination of the rural banks. RBAP may engage an independent consultant or a rating agency to perform these audits.

### **Certification Criteria**

#### Bank-wide indicators

- BSP camel rating of 3 and above for past year
- Capital adequacy: 12%
- Overall past due ratio: less than 15% for the past year.

#### Microenterprise finance specific indicators

- Experience providing financial services to microenterprises: at least six months
- Number of active microenterprise clients: At least 100
- Dedicated and trained loan officers for microenterprise finance activities
- MIS capability to produce PAR reports with ageing of portfolio at 1-7 days, 8-15, 16-30, 31-60; 61-90 and over 91 days, and capability to track rescheduled loans
- PAR (> 30 days) less than 5%
- Operational guidelines: Appropriate description of the terms and conditions of the microenterprise finance products offered; adequate operational procedures for assessment, disbursement, and monitoring of loans.

Microenterprise loans in the Philippines by the Bangko Sentral ng Pilipinas (BSP) are defined as small loans of amounts up to a maximum of P150,000 extended based upon the borrower's cash-flow (vs. secured by collateral) to micro-enterprises and small businesses to enable them to raise their operator's income levels and living standards.

Those banks that satisfy all of the above criteria can submit an application to the accrediting body. The application included below, must be accompanied by documents as follows:

- BSP CAMEL rating certificate for the past year
- Audited financial statements for two consecutive years for the entire bank along with detailed notes
- A copy of ageing of microenterprise finance portfolio at risk by 1-7 days, 7 days, 30 days, 60 days, 90 days, 180 days– for the last six months.
- Manuals and written documents: description of the terms and conditions of the microenterprise finance products offered; operational procedures for assessment, disbursement, and monitoring of loans

Upon receipt of an application for Best Practice Compliance Certification, the Certification Body will meet to review the applications. Applicants that meet the minimum requirements established for Certification will then be formally acknowledged as MABS participant banks and will receive a certificate with limited time validity.

The Best Practice Compliance Certificate is issued for a period of one year. Banks shall apply for their microenterprise performance to be rated using EAGLE rating on or before end of one year of Certification as a MABS participant bank. Since the prerequisites for requesting for EAGLE rating are similar to Best Practice Compliance Certification, obtaining any grade from EAGLE rating automatically functions as a renewal of Certification as a MABS participant bank.

## Costs

Rural banks are expected to pay a fee to cover the costs of processing Best Practice Compliance Certification. The actual cost is to be determined based on the demand and actual costs of the Certification process. It is anticipated that there may not be an additional fee by the technical assistance providers for recommending the banks for Certification, at least the first time, since it does not involve any substantial additional work. Input for recommendation to the Certification Body is directly obtained from the Operations Review.

## Certification Body

A Certification Body needs to be credible, objective, accessible, affordable, non-intimidating and independent. Meetings were held with selected officials at the Banko Sentral ng Pilipinas (BSP), Philippine Credit and Finance Corporation (PCFC), Philippine Deposit Insurance Corporation (PDIC), National Credit Council (NCC), and RBAP to determine the possibility of forming a committee comprised of representatives from these institutions to perform the role as accrediting body. Unfortunately, legal issues preclude BSP, PCFC and PDIC from participating on any committee that will act as an accrediting body.

The MABS-Management Committee (MANCOM) and RBAP will initially act as the Certification Body until an appropriate alternative is formed. The frequency of MABS-MANCOM meetings provide regular opportunities to review applications for and issue Best Practice Compliance Certification.

## Application for Best Practice Compliance Certification

Date of application:

Name of the bank

Address:

Year established:

Name of the director:

Name of the technical assistance provider:

Date started MABS training:

Types of microenterprise loans currently offered (group / individual / both):

Number of loan cycles completed for microenterprise finance loans:

Number of active clients:

Staff strength:

	All bank employees (incl. microenterprise finance staff)		Microenterprise finance loan officers	
	Past period	Current period	Past period	Current period
Head office and branches			Group loans :  Individual loans:	Group loans :  Individual loans:

Number of active borrower clients (head and branch office combined)

All types of borrower clients (incl. microenterprise loans)		Microenterprise finance clients (group and individual loans)	
Past period	Current period	Past period	Current period

		Group loans :	Group loans :
		Individual loans:	Individual loans:

**Note: The technical assistance provider, after conducting the operational review, should verify that the bank has fulfilled the minimum requirements for Certification and information provided in this application and supporting documents are valid.**

# ANNEX H

## Profitability Analysis

### PROFITABILITY ANALYSIS XYZ RURAL BANK, INC.

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Month 13	Month 14	Month 15	Month 16	Month 17	Month 18
Total # of Active Micro-depositors	0	0	24	46	118	183	246	307	368	464	539	611	679	749	809	875	939	1,000
Deposit Balance	0	0	4,757	19,038	47,564	86,013	134,309	192,548	265,436	357,584	469,313	301,117	752,746	924,808	1,117,952	1,337,367	1,583,109	1,059,353
Total # of Active Borrowers	0	0	24	46	68	88	108	128	170	209	249	288	325	362	397	432	467	500
Loan Portfolio Level	0	0	64,078	236,019	301,272	555,370	711,848	771,185	1,151,390	1,544,023	1,749,791	2,055,076	2,573,226	2,925,769	3,447,769	3,799,136	4,000,059	4,462,627
Number of Microfinance Staff	4	4	4	4	4	4	4	4	4	4	4	4	5	5	5	5	5	5
<b>STATEMENTS OF INCOME AND EXPENSES</b>																		
Financial Income																		
Interest Income on Loans	0	0	1,620	6,372	12,787	20,449	29,315	38,301	49,730	65,048	82,037	100,409	115,273	125,062	135,221	146,227	157,385	174,364
Service Fee on Loans	0	0	3,600	10,200	10,200	19,200	19,200	19,200	33,600	39,900	40,050	49,050	61,350	61,800	72,450	72,450	73,050	86,250
Penalty Fee on Loans	0	0	0	543	543	909	1,261	1,596	1,930	2,428	3,085	3,744	4,402	5,038	5,656	6,258	6,843	7,427
Interest Income on BSP Reserves and Cash in Banks	0	0	1	3	8	15	23	33	45	61	80	103	129	158	192	229	271	319
Total Financial Income	0	0	5,221	16,755	23,538	40,573	49,799	59,130	85,305	107,437	125,252	153,306	181,154	192,058	213,519	225,164	237,549	268,360
Financial Expense	0	0	10	50	139	278	459	681	954	1,298	1,723	2,230	2,821	3,495	4,256	5,115	6,084	7,172
Interest on Due to H.O.	875	1,167	2,508	4,608	5,425	8,750	10,267	11,387	15,878	19,437	22,295	25,445	29,237	33,320	37,753	38,278	39,970	40,437
Total Financial Expense	875	1,167	2,518	4,658	5,564	9,028	10,726	12,068	16,832	20,735	24,018	27,675	32,058	36,815	42,009	43,393	46,054	47,609
Gross Financial Margin	(875)	(1,167)	2,703	12,097	17,974	31,545	39,073	47,062	68,473	86,702	101,234	125,631	149,096	155,243	171,510	181,771	191,495	220,751
Loan Loss Provision	0	0	(1,922)	(5,158)	(1,958)	(7,623)	(4,694)	(1,780)	(11,406)	(11,779)	(6,173)	(9,159)	(15,544)	(10,576)	(15,657)	(10,544)	(6,028)	(13,877)
Net Financial Margin	(875)	(1,167)	781	6,939	16,016	23,922	34,379	45,282	57,067	74,923	95,061	116,472	133,552	144,667	155,853	171,227	185,467	206,874
Operating Expenses																		
Salaries and Benefits	34,200	34,200	34,200	34,200	34,200	34,200	34,200	34,200	34,200	34,200	34,200	34,200	43,560	43,560	43,560	43,560	43,560	43,560
Transportation	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,600	3,600	3,600	3,600	3,600
Communication	400	400	400	400	400	500	500	500	500	500	500	500	1,000	1,000	1,000	1,000	1,000	1,000
Gross Receipts Tax	0	0	261	829	1,149	1,982	2,426	2,875	4,167	5,247	6,104	7,473	8,831	9,343	10,384	10,934	11,522	13,031
Depreciation	0	1,111	1,111	1,944	1,944	13,611	13,611	13,611	13,611	13,611	13,611	13,611	13,611	13,611	13,611	13,611	13,611	13,611
PDIC	0	0	10	29	57	77	97	116	146	184	223	264	303	344	386	439	491	553
Insurance	0	0	600	1,150	1,150	1,650	1,650	1,650	2,700	3,225	3,250	3,775	4,200	4,225	4,675	4,675	4,700	5,075
Other Expenses	3,500	3,500	3,500	3,500	3,500	3,500	4,500	4,500	4,500	4,500	4,500	4,500	5,000	5,000	5,000	5,000	5,000	5,000
Total Operating Expenses	41,100	42,211	43,082	45,052	45,400	58,520	59,984	60,452	62,824	64,467	65,388	67,323	80,105	80,683	82,216	82,819	83,484	85,430
Other Income	0	0	600	1,150	1,150	1,650	1,650	1,650	2,700	3,225	3,250	3,775	4,200	4,225	4,675	4,675	4,700	5,075
Net Income before Tax	(41,975)	(43,378)	(41,701)	(36,963)	(28,234)	(32,948)	(23,955)	(13,520)	(3,057)	13,681	32,923	52,924	57,647	68,209	78,312	93,083	106,683	126,519
Cumulative Net Income before Tax	(41,975)	(85,353)	(127,054)	(164,017)	(192,251)	(225,199)	(249,154)	(262,674)	(265,731)	(252,050)	(219,127)	(166,203)	(108,556)	(40,347)	37,965	131,048	237,731	364,250



## **ANNEX I**

### **MSP Training and Licensing Agreement**

## ANNEX K

### MSP Training Program

#### Training Schedule

Prepared June 1

MR-Market Research

SMO-Senior Management Orientation

PD-Product Development

CIBI-CIBI & Cashflow

	MSP Training
	Bank Training
	TA Delivery
	Post-Module Evaluation

#### March

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12 SMO	13 SMO	14 SMO	15
16	17 SMO	18	19	20	21	22
23	24	25	26 SMO	27 SMO	28	29
30	31					

#### April

S	M	T	W	T	F	S
		1	2 MR	3 MR	4 MR	5
6	7	8	9 MR	10 MR	11 MR	12 MR
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

#### May

S	M	T	W	T	F	S
				1	2	3
4	5 MR	6 MR	7 MR	8 MR	9 MR	10
11	12 MR	13	14	15 MR	16 MR	17
18	19	20	21	22	23	24
25	26 PD	27 PD	28 PD	29 PD	30 PD	31

#### June

S	M	T	W	T	F	S
1	2 PD	3 PD	4 PD	5 PD	6 PD	7
8	9	10	11	12	13	14
15	16	17 PD	18 PD	19 PD	20	21
22	23	24	25 PD	26 PD	27	28
29	30 CIBI					

#### July

S	M	T	W	T	F	S
		1 CIBI	2 CIBI	3 CIBI	4 CIBI	5
6	7	8 CIBI	9 CIBI	10 CIBI	11 CIBI	12
13	14	15 CIBI	16 CIBI	17 CIBI	18 CIBI	19
20	21	22	23	24	25	26
27	28	29 OR	30 OR	31 OR		

#### August

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12 CIBI	13 CIBI	14 CIBI	15 CIBI	16
17	18	19	20 CIBI	21 CIBI	22	23
24	25	26	27	28	29	30
31						

#### **Senior Management Orientation**

March 12-14, 17: MSP Training

March 26-27: Bank Training

#### **Market Research**

Classroom Training

April 2-4,9: MSP Training

June 10-12: Bank Training

Technical Assistance

May 5: Orientation of MSPs

May 6-8: TA at Banks

May 9: MSP Assessment

Post-Module Evaluation: May 12, 15-16

#### **Product Development**

Classroom Training

May 26-30: MSP Training

June 2-6: Bank Training

Technical Assistance

June 16: Orientation of MSPs

June 17-19: TA at Banks

June 20: MSP Assessment

Post-Module Evaluation: June 25-26

#### **CIBI & Cashflow**

Classroom Training

June 30-July 4: MSP Training

July 7-11: Bank Training

Technical Assistance

July 14: Orientation of MSPs

July 15-17: TA at Banks I

July 18: MSP Assessment

August 11: Orientation of MSPs

August 12-14: TA at Banks II

August 15: MSP Assessment

Post-Module Evaluation: August 20-2

#### **Operations Review**

Technical Assistance

July 28: Orientation of MSPs

July 29-31: Operational Review at Ba

August 1: MSP Assessment

